Report to the Legislature and the Citizens of Minnesota

Minnesota Tax Reform

Minnesota Department of Revenue
January 1987

STATE OF MINNESOTA

OFFICE OF THE GOVERNOR

ST. PAUL 55155

RUDY PERPICH
GOVERNOR

January 26, 1987

Dear Members of the 75th Legislature and Citizens of the State:

I am very pleased to transmit to you today our Plan for Minnesota Tax Reform. It is a fair and thoughtful response to the opportunity provided us by the passage last year of federal tax reform.

This Administration is committed to creation of opportunity and jobs for all our citizens. I am proud of our record to date, but more needs to be done. To meet this challenge, we must have a fiscal system that meets the funding requirements of today and the revenue uncertainties of tomorrow. I believe our Plan meets those needs.

We are presenting you with the most comprehensive overhaul of our tax system ever attempted in this state. Nearly every one of our taxes needs major work, and the Plan provides recommendations in respect to each.

First and foremost, the Plan will add fairness to our system; it rewards those who have been paying their fair share. Secondly, the Plan will make us more competitive with the states with which we compete; no rates are increased under the Plan, and many are decreased. The Plan meets my other goals of simplicity, revenue stability, governmental accountability and improved enforcement.

I want to commend the hundreds of Minnesotans who contributed to the development of this Plan. I am very excited about the proposals we are making, and I urge your serious consideration of them. I can assure you that we stand ready to work with you in the months ahead on this most important issue.

Sincerely,

Rudy Perpich

RUDY PERPICH
Governor

EXECUTIVE SUMMARY

This Tax Reform Plan is presented by the administration of Governor Rudy Perpich to the citizens of Minnesota and to the 75th session of the Minnesota Legislature.

Implementation of the plan will insure a fairer tax system, will make Minnesota's tax rates more competitive, will add stability to our revenue system, will improve fiscal accountability between taxpayers and their state and local governments, will simplify those taxes which are difficult to understand, and will improve the enforceability of the entire system.

In this plan, we make specific reform recommendations for nearly all of Minnesota's taxes. The most significant of the recommendations are the following:

1. We should maximize state conformity with federal income taxes. The state should adopt the changes in income definitions, deductions, and exemptions contained in the 1986 Federal Tax Reform Act. We should repeal those special tax preferences which vary from federal law.

Making these changes will:

a. greatly simplify our tax forms,
b. add substantial fairness by removing special preferences, and
c. improve enforceability through federal information exchange.

2. We should return to Minnesota income taxpayers every dollar of savings from federal conformity (the so-called "windfall") and from the repeal of the Minnesota tax preferences. The number of state tax rates should be reduced from sixteen to two: 8 percent and 6 percent.

Making these changes will:

a. drop our national ranking on rates from the top ten states,
b. avoid any "back door" tax increases, and
c. simplify tax computations.

3. We should begin state income tax computations with federal taxable income (FTI) rather than with adjusted gross income (FAGI) as we now do. The state would thereby adopt the increased federal personal exemption and standard deduction. We should adopt a separate head-of-household tax table as used in the federal code.

Making these changes will:

a. further reduce tax liability for many Minnesotans,
b. totally remove tax liability for 125,000 low-income families,
c. further simplify state tax computations for all taxpayers, and
d. permit 1,300,000 Minnesotans to use the short form, compared to 350,000 now.

4. We should broaden our sales tax base to include items and institutions that cause unfairness because of their exemption, tend to discourage efficient operation by government and nonprofit organizations, and complicate the administration of the tax.

Making these changes will:

a. add stability to the sales tax base,
b. generate some additional revenue,
c. add administrative improvements to the tax, and
d. help to promote a "level playing field" for all classes of taxpayers.

5. We should expand the corporate tax base by adding a minimum tax on business activities in the state, by removing the ability to carry back net operating losses, by repealing the arithmetic apportionment formula option, and by conforming to federal corporate tax amendments.

Making these changes will:

a. add fairness by having more businesses pay business taxes,
b. simplify the corporate tax,
c. generate additional revenues,
d. shift tax burden to non-Minnesota businesses, and
e. add substantial stability and predictability to the corporate tax.

6. We should reduce the top corporate tax rate from 12 percent to 8.9 percent.

> Making these changes will:
>
> a. drop us from the top ten states in ranking by rate and
> b. reduce the burden, especially on highly taxed in-state businesses.

7. We should make various reforms in taxes affecting specific businesses. For example, we should extend the insurance gross premium tax to all policies sold in the state, delay the scheduled phase-out of the telephone gross receipts tax, and overhaul the timber and minerals taxes.

> Making these changes will:
>
> a. increase system fairness by equalizing tax treatment,
> b. help to promote job growth in resource industries,
> c. make Minnesota more competitive on resource taxes,
> d. generate additional revenues, and
> e. improve administration of business taxes.

8. We should reduce the number of property tax classifications from 68 to 5. The classification ratios between the classes should be adjusted to reduce the spread between the classes.

> Making these changes will:
>
> a. greatly simplify the property tax system,
> b. reduce the tax disparities between the classes, and
> c. remove us from top national rankings on business property taxes.

9. We should consolidate 10 separate property tax credits and aids into one state education credit for distribution to all classes of property. This credit should be initially funded at the current level of funding for all the other credits combined and should be used to reduce education tax levies. Levy limits on cities, counties, and townships should be repealed, and local governments should be given limited discretion to alter the otherwise equal distribution of credits among property classes.

> Making these changes will:
>
> a. improve local accountability for taxing and spending,
> b. permit local units to better solve local tax problems,
> c. greatly simplify our property tax credit system, and
> d. improve fiscal system stability for the state.

10. We should improve tax enforcement programs by adding more statutory tools. Tax compliance resources should be increased, and Department of Revenue system development should be expedited.

Making these changes will:

a. improve the enforcement of tax laws, and
b. generate additional revenues from cheaters and delinquents.

* * *

In evaluating these tax proposals, it is important that this Tax Reform Plan be considered as a package. Taxpayers are often affected simultaneously by several different taxes, and an adverse change in one area may be offset by a favorable change in another. Those evaluating how these changes affect business, for example, need to look at the changes in both the corporate income tax and in the property tax system. Those concerned with the tax burden on low income citizens need to take into account the combined result of the income tax changes and the reforms in the property tax and property tax refund system. Further, one must evaluate both the short term shift in taxes and the long-term change in tax burdens which will stem from the structural changes in the tax system.

* * *

Overall, this Tax Reform Plan is one that rewards those individuals and businesses who have been paying their fair share. Work is rewarded, and substantial benefits are returned to individuals and families at the lower end of the income scale. Tax benefits would be taken away from persons and businesses who have profited from tax preferences which are not based on income or the ability to pay. In summary, fairness is the overriding theme of this Tax Reform Plan.

TABLE OF CONTENTS

I. INTRODUCTION

In this introductory chapter, we describe the six goals for tax reform, the study process, and the format for this report.

A. Goals For Tax Reform

The recommendations contained in this report are designed to achieve six essential goals. These goals were identified by Governor Perpich for the Department of Revenue at the outset of this reform project, and they served as the measure against which all reform options were evaluated. In many cases, the goals are closely interrelated. For example, a less complex system could lead to better compliance with our tax laws. The six goals are described below.

Fairness

A tax system should strive to achieve equal taxes for citizens and businesses having similar financial situations. The greater the number of exceptions and special provisions in a tax code, the less likely it is that the code will be perceived as fair. The federal Tax Reform Act of 1986 substantially improved the basic equity and fairness of the federal tax code, and many of its concepts are transferable to Minnesota.

Competitiveness

All of our taxes must be competitive with the taxes of other states so we can successfully compete for jobs and economic development. In many instances, Minnesota's taxes are too high. Although there is some dispute about the degree to which high taxes adversely affect job creation, there is little doubt that comparatively high taxes are not helpful in attracting new business or business expansion. Minnesotans want and deserve a high level of public services, but this goal should be achieved with the lowest possible tax burden. A specific target for this goal is to remove Minnesota from the ranking of the top ten states in each of our major tax types.

Stability

According to the federal Advisory Commission on Intergovernmental Relations (ACIR), Minnesota's tax and fiscal system is the most volatile in the nation. There are many causes for this volatility, and the principal ones, such as national and regional economic fluctuations, are outside the control of state government. Nevertheless, improving both the stability and predictability of our tax system will improve the management, productivity, and services of state and local government.

Accountability

Minnesota's system for funding its public services is confusing and overlapping. State government, for example, directly participates in the financing of almost every activity undertaken at the local level. The degree of this financial participation varies, and this further confuses the situation. Taxpayers seldom know which unit of government is responsible, and therefore accountable, for spending decisions.

Simplicity

The many exceptions and formulas in Minnesota's tax system have made it one of the most complex and least understandable of any fiscal system in the country. Very few people in the state, for example, totally understand our property tax and local aids distribution system. A tax system with so many complexities is bound to have substantial flaws or, perhaps more important, will be perceived as having flaws by those who do not understand the system.

Enforceability

A tax system will not work unless it provides a structure in which tax administrators can accurately and easily determine tax obligations. Further, the tax system should make collection and enforcement as effective and efficient as possible.

Achievement of Other Goals

The principal focus of our work was the six goals noted above. However, in the course of our research and analysis, we identified other tax law improvements which will achieve additional public policy goals. Examples include: controlling state property tax relief expenditures and thereby removing incentives for local government property tax increases, and directly fostering job growth through favorable tax incentives for natural resource and other state industries.

B. Study Process

The Department of Revenue was directed in October 1985 by Governor Perpich to undertake this tax reform project. Substantial work on this project began after adjournment of the 1986 Legislative Session.

Coordination of the project was the responsibility of the Governor's Tax Policy Group, consisting of officials in the Governor's Office and the following state agencies: Revenue, Finance, State Planning, and Energy and Economic Development.

The principal work leading to the preparation of this report was performed by six separate teams, each chaired by a top manager in the Revenue Department. The department's six tax teams were sales and income tax, property tax and local aids, business taxes, environmental and resource taxes, special taxes, and agricultural taxes. A roster of the members of the Governor's Tax Policy Group and the six tax teams is included as a separate appendix.

Although the Minnesota Tax Study Commission report was completed before the 1985 state tax cut and the federal Tax Reform Act of 1986, we are extremely indebted to the work of the Commission. We have noted in the report how our recommendations comport with those of the Commission.

Copies of the Report of the Minnesota Tax Study Commission are available from Butterworth Legal Publishers, Inc., St. Paul.

In addition to reviewing the work of the Minnesota Tax Study Commission, all six teams relied heavily on consultations with outside advisors. In some cases, these outside advisors constituted a formal "outside advisory group" created by a team. Special ad hoc advisory groups were also created for specific issues. Further, extensive use was made of existing outside panels (e.g., the Governor's Advisory Commission on State and Local Relations).

Throughout the course of the work, teams consulted extensively with private citizens, legislators, state agency heads, and interest groups. In addition, senior managers of the Revenue Department made more than seventy formal presentations on tax reform issues to organizations throughout the state. Invariably, attendees at these sessions offered advice or asked probing questions on one or another major tax issue.

Finally, last fall the department helped sponsor a major conference on state tax law reform attended by more than 200 people. Other co-sponsors were Hamline University's Public Administration Program and the Citizens League.

Several hundred Minnesotans were involved in one way or another in work leading to the preparation of this report, and we are extremely grateful. We found that Minnesotans are deeply interested in tax reform for the state, and they were very helpful to us in our work.

C. Format for This Report

Following this introductory chapter, the remainder of the report deals with the major Minnesota taxes and related issues:

- The Individual Income Tax
- Corporate Income and Bank Excise Taxes
- The General Sales Tax
- Property Taxes and Local Aids
- Environmental and Resources Taxation
- Other Taxes
- Tax Compliance

The material in each chapter is arranged in the following order:

- Current Law
- National Rankings
- Issues
- Minnesota Tax Study Commission Recommendations
- Major Findings from Consultations
- Recommendations
- Future Considerations

Working papers and other supporting materials used in preparation of this report are public documents and are available for review in the Department of Revenue Library (Room 200, Centennial Office Building, 296-3529).

The department has begun to draft bills to implement recommendations contained in this report. Overall supervision of legislative and rule drafting for the department is within the Office of Legal and Legislative Services (296-1022). Final drafts of the bills will reflect any changes made by the Governor. When completed, those bills will be available to the public.

II. The Individual Income Tax

Current Law

Minnesota first enacted an individual income tax in 1933. Since then, the tax has grown significantly as a revenue source for the state. By 1986, the tax raised $1.95 billion, or 41 percent of Minnesota's tax revenues. Current law now has a top marginal rate of 14 percent if the taxpayer chooses to deduct federal taxes or 9.9 percent without the deduction of federal taxes.

State tax computations now begin with federal adjusted gross income, and many of the former special tax provisions which varied from federal law have been repealed. However, Minnesota income tax law continues to keep special preferences that differ from those in federal law, in order to benefit select categories of taxpayers.

National Rankings

As the income tax assumed greater revenue significance for the state, Minnesota moved up in the national rankings of tax collections. By the 1984 rankings, Minnesota was second in income tax collections per capita, and first in income tax collections per $1,000 of personal income. In 1986, Minnesota had the fifth highest top marginal rate in the nation.

These rankings and the increasing complexity of the tax code prompted legislation in 1984 and 1985. The 1984 bill repealed the 10 percent income tax surcharge (scheduled to be 10 percent in 1984 and 5 percent in 1985), and the 1985 bill further reduced taxes by 17 percent and greatly simplified state tax forms. As a result of those changes, Minnesota no longer ranks number one in any major income tax catagory (see Comparison of the 1985 Individual Income Tax Burdens By State, Research Report No. 133, Minnesota Department of Revenue, Research Division, October 1986).

However, we continue to a have relatively high overall national rankings. The 1984 and 1985 cuts have dropped the state in the rankings, but we are probably still within the top ten on rates, per capita collections, and percentage of income tests.

Issues

1. Tax Rates. The 1984 and 1985 law changes greatly improved the Minnesota individual income tax. Rates were reduced by 25 percent (the highest average reduction in the nation in recent years), and tax forms were simplified. However, many agree the tax is still too high and that further rate reduction and simplification are desirable.

2. Conformity to Federal Law. The 1985 law change brought the state much closer to federal law and has greatly simplified our tax returns. The Federal Tax Reform Act of 1986 poses additional opportunities for further federal conformity. Conformity to all the new base broadeners would mean an

increase in taxes for state taxpayers of approximately $657 million in fiscal years 1988 and 1989 if we do not offset these changes through tax rate reduction. The conformity issue can be classified into two categories:

a. Continuing conformity on those items where we have conformed.

The federal reform limits certain tax benefits now enjoyed by federal tax payers. If Minnesota adopts the federal law changes, the same effects will occur in Minnesota, including:

- increasing the medical expense exclusion from 5 percent to 7.5 percent of income
- repealing the capital gains tax preference
- limiting the deductibility of passive investment losses
- repealing the two-earner deduction, because with a flatter rate schedule, there is no longer a "marriage penalty"
- replacing the double personal exemption for seniors with a higher standard deduction
- limiting the IRA deduction
- limiting the exemption of interest from certain tax-exempt bonds

Failure to conform to the new federal changes would mean substantially increased complexity.

b. Expanded conformity through elimination of remaining differences.

The 1986 federal bill offers the opportunity to re-examine existing tax base differences, including:

- exclusion of certain pension income
- exclusion of unemployment compensation
- credits for political contributions and child care
- deductions for private school tuition
- exclusion of military pay

Conformity on these issues would mean additional simplification.

Tax Study Commission Recommendations

Not adopted by the Legislature:

1. The Minnesota tax base should begin with federal taxable income.

2. The deduction for federal taxes should be eliminated (however, optional deductibility was adopted).

3. The income tax should be reduced by approximately 20 percent with the cut concentrated in lower and middle income brackets (however, 1985 legislation cut taxes by 17 percent).

Adopted by the Legislature in 1985:

1. The state should conform with federal filing status so as to recognize the tax status of the married couple.

2. Various credits should either conform to federal law or be repealed (those remaining items of nonconformity are noted above).

3. The income tax should be fully indexed to some "generally accepted measure of price level change." (The Legislature adopted the same CPI standard as used in federal laws.)

Major Findings From Consultations

Many taxpayers and business groups continue to believe that Minnesota income tax rates are too high. For example, two business groups advised us that their memberships regard the income tax as the state's major tax problem.

On the other hand, organizations representing lower income persons believe that the prior income tax cuts may have been too large, the result being reduced dollars for needed governmental services.

Overall, taxpayers appreciate the state's 1985 efforts at simplification. While the concept of federal conformity is generally accepted, taxpayers remain concerned about certain provisions of the new federal tax bill and are reluctant to totally delegate tax policy to the federal government without careful evaluation.

The most common complaint we heard concerned unfairness resulting from the 1985 amendments to the pension exclusion. Other complaints related to the lack of an "unmarried head of household" table, comparable to that of the federal code, in which tax rates on single parents are set between those for singles without dependents and those for married couples.

Concern was also expressed about the manner by which the federal conformity gain (sometimes called a "windfall") would be distributed. Several groups noted that the failure to return 100 percent of the gain to income taxpayers will mean an income tax increase for the state. In addition, it was noted that it is impossible to totally return the gain in exactly the same manner and to exactly the same taxpayers who would be "paying" for the gain.

Finally, nearly all with whom we spoke suggested that low income taxpayers who would be dropped from the federal tax rolls should also be dropped from the state tax rolls.

Recommendations

We recommend that the Minnesota individual income tax laws be amended as follows:

- *Adopt federal taxable income*. State tax computations should begin with federal taxable income (FTI) rather than adjusted gross income (FAGI). By so doing, we will continue to conform with federal definitions and bases, substantially increase our standard deduction, and replace our personal credits with the new federal personal exemptions. This change would increase simplicity by reducing the number of lines on our long form, would permit about 1,300,000 filers to use the short form, and would drop over 125,000 low income families from the tax rolls.

- *Further expand conformity*. We recommend that state tax simplicity, fairness, and enforceability be further increased by removing the remaining variances from federal law. These variances are inconsistent with our overall goal of removing special tax preferences for limited categories of individuals; revenue "costs" associated with targeted preferences should be returned to all taxpayers in the form of burden reductions. This recommendation means repealing the following:

  - pension exclusion
  - military pay exclusion
  - unemployment compensation exclusion
  - tuition deduction
  - political contribution credit
  - federal tax deduction option
  - carryovers remaining from the 1985 tax cut

- *Retain certain variances from federal tax*. Certain existing Minnesota provisions need to be retained for constitutional, reciprocity, or tax equity reasons:

  - deduction of interest on U.S. bonds
  - adding back of state income taxes to federal itemized deductions
  - deduction of state tax refunds
  - credit for taxes paid to other states.

- *Retain child care credit* (but conform to the federal credit).

- *Reduce rates and adjust brackets.* We recommend that the goals of competitiveness and simplicity be fostered by reducing our rate structure to two rates, and that these rates be substantially reduced from current levels to 6 and 8 percent. The 1988 tax brakets and rates are shown below.

1988 Tax Brackets and Rates (Permanent)

Taxable Income Brackets			
Single	Married	Single Head of Household	Rates
$ 0 - 13,000	$ 0 - 19,000	$ 0 - 16,000	6%
13,001 and Over	19,001 and Over	16,001 and Over	8%

Because many of the new federal provisions are not fully phased in until 1988, we recommend that a transition rate schedule be used for tax year 1987. That schedule is shown below.

1987 Transition Tax Brackets and Rates

Taxable Income Brackets

Single	Married	Single Head of Household	Rates
$ 0 - 3,000	$ 0 - 4,000	$ 0 - 3,500	4%
3,001 - 9,000	4,001 - 11,000	3,501 - 10,000	6%
9,001 - 16,000	11,001 - 21,000	10,001 - 18,500	8%
16,001 and Over	21,001 and Over	18,501 and Over	9%

Since the new federal tax moves progressivity from the rates to the base, through the larger standard deduction, higher personal exemptions, and the removal of many tax shelters, state conformity to federal taxable income allows the use of this two rate system in 1988 with no loss (a slight gain) in overall progressivity.

To add fairness to the system and to provide targeted relief to single-parent families, we recommend the addition of a head-of-household table with brackets established between our existing married and singles tables.

- *Retain checkoffs*. We also recommend retaining two special tax targeting provisions: the nongame wildlife checkoff and the political checkoff. However, to simplify the tax forms for most Minnesotans, we recommend that both checkoffs be deleted from the short form return. Financing for both these programs would be continued through direct funding.

- *Retain indexing as a method to help insure future competitiveness*.

These recommendations will greatly simplify the income tax, make it more equitable by eliminating many tax preferences, and improve the Department of Revenue's ability to administer and enforce the tax.

The recommendations will allow:

- A 5-line short form that
  - contains only one page of instructions
  - applies to any income level
  - applies to single and married taxpayers
  - applies regardless of number of dependents
  - will be used by over two-thirds of all filers

- a standard form that:
  - is reduced from 30 lines to 18 lines
  - is reduced from two pages to one page
  - will be used by only one-third of all filers

Copies of the proposed income tax forms are contained in Appendix A.

The proposed income tax will use the new federal standard deduction amounts, and adopts the new federal personal exemption amounts in place of the current personal credits. These amounts are shown below:

Filing Status	New Standard Deduction 1987	1988
Single	$2,540	$3,000
Married Joint	3,760	5,000
Married Separate	1,880	2,500
Heads of Households	2,540	4,400

New Personal Exemptions	
1987:	$1,900
1988:	1,950
1989:	2,000

The combined impact of the entire income tax proposal on taxpayers at different levels of income are shown in a separate series of tables prepared by and available from the Department of Revenue

Future Considerations

As future revenues permit, we recommend that priority be given to further income tax rate reductions.

III. Corporate Income and Bank Excise Taxes

Current Law

Minnesota first enacted a corporate income tax in 1933 and a bank excise tax in 1941. For the purposes of this report, the two taxes are referred to as the corporate income tax.

Minnesota's corporate income tax is similar to the federal corporate income tax and other state corporate income taxes. Minnesota is atypical in its treatment of depreciation, depletion, and amortization deductions.

Minnesota is the only state that allows a deduction for 60 percent of long-term capital gains and allows taxpayers to choose either arithmetic average or weighted average apportionment in determining the amount of income taxable in Minnesota.

The current corporate tax rate is 6 percent on the first $25,000 of taxable income and 12 percent on the excess. These rates apply only to the income that is apportioned to Minnesota, and the $25,000 is multiplied by the apportionment ratio.

Approximately half of the 50,000 corporations that file a corporate income tax return in Minnesota pay no Minnesota income tax. While most corporations operate entirely in Minnesota, most of the tax is paid by multistate corporations, as shown below:

DISTRIBUTION OF MINNESOTA CORPORATE INCOME TAX

Gross Sales	Percent of Corporate Returns Filed	Percent of Tax Paid
Corporations Doing Business Only In Minnesota		
Under - $ 100,000	29%	8%
$ 100,001 - 1,000,000	29	4
1,000,001 - 10,000,000	10	6
10,000,001 - 100,000,000	1	3
100,000,001 - 1,000,000,000	--	--
Over - 1,000,000,000	--	--
	69%	21%
Multistate Corporations		
Under - $ 100,000	10%	20%
$ 100,001 - 1,000,000	4	1
1,000,001 - 10,000,000	9	10
10,000,001 - 100,000,000	5	13
100,000,001 - 1,000,000,000	2	13
Over - 1,000,000,000	1	22
	31%	79%

Another 16,400 "small business" corporations file "S corporation" returns, which allow their income to be taxed directly to their shareholders rather than to the corporation.

In fiscal year 1986, the corporate income and bank excise taxes raised $367 million, or 7.6 percent of state tax collections.

National Rankings

The following chart shows Minnesota's ranking as compared to other states in terms of collections per capita and collections per $1,000 of personal income:

Minnesota Corporate Income Tax Ranking

	Fiscal Years		
	1980	1982	1985
Top marginal rate (12%)	1	1	1
Per capita	4	8	11
Per $1,000 of personal income	3	8	14

Source: U.S. Department of Commerce, Bureau of the Census, Governmental Finances, and State Government Finances, various years.

Minnesota's rankings on the per capita and per $1,000 of personal income standards are considerably lower than one would expect from a state with the highest corporate tax rate in the nation, a considerable degree of industrialization, and the presence of a large number of major corporations. Among the reasons for this is Minnesota's unique provision allowing corporations to choose whichever apportionment formula produces the lower tax.

Issues

1. Volatility. Minnesota's corporate income tax is extremely volatile, thereby contributing to the instability of our tax system. For example, between 1977 and 1984, corporate income tax collections ranged from a low of $215.5 million to a high of $358.1 million, a variance of more than $140 million. Minnesota's allowance of net operating loss carrybacks adds to this instability, because a corporation that suffers a loss not only does not pay income tax, but may also receive a refund of taxes previously paid.

2. Narrow tax base. As noted above, only half of Minnesota's corporations pay tax in any one year. Minnesota law, unlike federal law, does not have a corporate minimum tax that would broaden the tax base. (Minimum taxes

are often justified on the theory that they represent taxation for public services used by a business whether or not that business has a "profit.")

Corporations escaping Minnesota income taxation are not an insignificant group. In 1985 they owned $18.6 billion of Minnesota property, paid $6.6 billion in Minnesota payroll, and sold $30.4 billion of goods and services in Minnesota. If Minnesota were to adopt a minimum tax, the corporate income tax could be made more stable because some tax would be due, even in loss years.

While the minimum tax affects companies currently paying no tax, most companies now paying the corporate tax would be unaffected. The taxes paid by such companies could be lowered if the additional revenues from the minimum tax were used to reduce the overall rate.

Three alternatives for the corporate minimum tax are possible:

- Conform to the federal alternative minimum tax base with apportionment as under the corporate income tax.
- Impose a business activities tax with a low rate levied on gross sales less the cost of goods sold, with apportionment as under the corporate income tax.
- Impose a business activities tax having as a base the Minnesota factors (i.e., the sum of the property, payroll, and sales in Minnesota).

3. High nominal rates. Minnesota's high corporate income tax rate clearly hurts most those corporations that do not export their products or services outside Minnesota. In addition, the 12 percent rate contributes to the perception that Minnesota is anti-business.

4. Conformity to federal law. Minnesota's lack of conformity reduces the simplicity and enforceability of Minnesota's tax system. The federal Tax Reform Act of 1986 will widen the differences between Minnesota and federal taxation of corporations unless the Legislature changes current law.

   An example of this effect is depreciation. Minnesota has only partially adopted the more liberal federal depreciation provisions enacted in 1981. Conformity to the new federal depreciation provisions would produce a significant, but temporary, revenue loss for Minnesota. However, it would reduce the record keeping burdens currently faced by corporate taxpayers.

5. Out-of-state business/mail order sales. Out-of-state businesses enjoy the benefits of Minnesota's markets and public services, yet in many cases pay no Minnesota corporate tax. This is a problem, particularly in the financial services industry (e.g. credit card income) and in the increasingly popular catalog sales (mail order) industry. This issue is further discussed in Chapter IV.

6. Unrelated business income. Unlike Minnesota, federal law imposes an income tax on the unrelated business income of tax-exempt organizations. Such a tax is justified in theory on grounds of equity and competitiveness;

exempt organizations engaging in "for profit" activities are unfairly competing with taxable companies.

7. Taxation of the insurance industry. Minnesota taxes the insurance industry in two major ways: the gross premiums tax and the corporate income tax, against which the gross premiums tax is a credit. The gross premiums tax has not been applied equally in that most "non-profit" insurance companies are exempt from the tax. However, the distinctions between insurance companies have diminished substantially in recent years.

   The corporate income tax as applied to insurance companies is outdated in that it is based on the 1936 Internal Revenue Code.

Tax Study Commission Recommendations

1. Minnesota should generally maintain the status quo relating to the corporate income tax.

2. Minnesota should tax both financial and nonfinancial corporations in the same manner in order to enhance simplicity and neutrality.

3. In order to have a simple, competitive and fair corporate tax, Minnesota should retain domestic unitary combinations and continue to reject worldwide unitary combinations.

Major Findings From Consultations

The business community appears to be more concerned about the individual income tax and commercial-industrial property taxes than it is about the corporate income tax.

The business community generally favors conformity of Minnesota's corporate income tax law to the federal income tax and believes this will improve the state's business climate and competitiveness with other states.

Minnesota's unitary income tax no longer appears to be a serious issue with business. While it significantly complicates our corporate income tax, unitary taxation may be better than trying to police intercompany efforts to minimize Minnesota tax liability. Additional enforcement efforts to make certain that all unitary groups of corporations file on that basis appear to be in order.

Recommendations

We recommend that the Minnesota corporate income and bank excise tax be amended as follows:

- *Reduce the maximum corporate income tax rate* from 12 percent to 8.9 percent. This would reduce the rank of Minnesota's nominal rate from 1st to 13th nationally and would thereby assist in our efforts at improved competitiveness.

- *Eliminate net operating loss and capital loss carrybacks* and extend the carryforward period from 5 years to 15 years. This would substantially increase stability and enforceability. The extension of the carryforward period would help to offset the loss of carrybacks and would conform Minnesota law to the 1986 federal changes.

- *Eliminate the arithmetic average apportionment option*. This would simplify the tax, improve predictability, improve conformity with other states, and transfer tax burdens away from in-state corporations.

- *Impose a new corporate minimum tax* in the form of a business activities tax at the rate of 0.1 percent of the Minnesota sum of the apportionment factors. This would promote fairness and stability by broadening our tax base, and thereby permitting rate reductions. In comparison to the two other options for a minimum tax, this "factors" tax is more certain of calculation, easier to predict from a revenue perspective, and a better reflection of business activity in the state.

- *Increase conformity to federal law*. Many differences from federal law would be eliminated. The most visible are those pertaining to depreciation, charitable contributions, capital gains, and the treatment of insurance companies and financial institutions. This would enhance fairness, simplicity and enforceability.

- *Eliminate special credits* including the small business contribution credit and technology transfer credit, and modify the research and development credit to better conform with federal law. These changes would simplify the tax, and facilitate the proposed rate reduction.

- *Adopt federal treatment of unrelated business income*, thereby subjecting nonprofit organizations to the Minnesota corporate income tax just as they are now subject to the federal corporate tax. This change would treat nonprofit "business activities" equitably with similar activities of for-profit businesses.

- *Repeal the exemption from gross premiums tax* for Blue Cross/Blue Shield, health maintenance organizations, fraternal beneficiary societies, and for certain types of insurance written by domestic mutual property and casualty insurance companies. This would treat all insurance companies equitably and provide additional revenues.

IV. The General Sales Tax

Current Law

Minnesota's general sales and use tax was enacted in 1967 as part of that year's Tax Reform and Relief Act. In its first year, the rate was 3 percent, raising approximately $113 million (including motor vehicle sales). This amounted to 8 percent of total state tax collections. The rate was first increased in 1971 to 4 percent, and by 1983 had risen to its current rate of 6 percent.

In general, the sales tax is imposed upon the gross receipts of all persons and businesses that sell, lease, or rent tangible personal property at retail or provide taxable services in Minnesota. The tax is paid by the purchaser, but remitted by the seller on either a monthly, quarterly, or annual basis, depending on the amount of taxable sales made by the vendor.

In fiscal year 1986, sales and use tax collections and the now separately collected motor vehicle excise tax totaled $1.5 billion, 33 percent of total state tax collections.

National Rankings

In fiscal year 1985, Minnesota ranked 15th among the states in sales tax collections per capita and 19th in collections per $1,000 of personal income. Before 1982, Minnesota's ranking on sales tax collections per capita was never greater than 35th, and was always less than the U.S. average until fiscal 1983, when it exceeded that of the U.S. average by $4. In 1985, Minnesota's per capita sales tax was $22 above that of the U.S. average.

MINNESOTA GENERAL SALES TAX RANKING

	Fiscal Year		
	1980	1983	1985
Per Capita			
Rank	37	17	15
Amount	$159.46	$239.44	$321.54
Per $1,000 of Personal Income			
Rank	37	21	19
Amount	18.06	21.48	24.46

Source: U.S. Department of Commerce, Bureau of the Census, Governmental Finances, and State Government Finances, various years.

Minnesota is one of five states imposing the third highest sales tax rate. Only Connecticut at 7.5 percent and Washington at 6.5 percent have higher rates. The comparison of general rates, however, does not take into consideration the fact that some states rely more heavily upon local sales taxes than Minnesota does. For example, consumers in New York City pay state and local sales taxes at a rate of 8.25 percent, in Chicago they pay 9 percent, and in Las Vegas, 9.5 percent. In fact, among the 46 largest metropolitan areas, the combined state and local sales tax paid by Minneapolis residents ranks 11th from the top. Therefore, while Minnesota's rate is the third highest in the nation, a comparison of state and local sales taxes is more instructive. In contrast with other states, Minnesota has prohibited most local sales taxes and, instead, has relied on state taxes to fund extensive state aids to local governments.

Issues

1. <u>Complexity and fairness</u>. The Minnesota sales tax is extremely complex, due primarily to the application of four rates superimposed upon numerous exceptions based on the nature of goods purchased, the nature of the buyer, and/or the use to which the goods are put.

   The following examples illustrate this point:

   - logging equipment

     - A chain saw is subject to a 2 percent rate, but only if it has an engine displacement of at least 5 cubic inches and is used for logging only. Other chain saws are taxed at 6 percent.

   - farm machinery

     - Farm machinery repair parts are completely exempt, provided they are assigned a manufacturer's part number.

     - The rate imposed on farm machinery or its repair parts is further dependent upon whether or not the machinery is attached to real property. Barn cleaners and crop dryers are types of machinery attached to real property. If a farmer purchases and installs a barn cleaner, it is subject to the 2 percent rate. If a dealer installs it for the farmer, it is considered a contract to improve real property and the dealer must pay the full 6 percent on the piece of machinery. In the case of repair parts purchased to repair a barn cleaner, if the farmer purchases and installs the part, it is exempt, but if a dealer installs the part, it is subject to a 6 percent tax.

   - capital equipment

     - Generally, machinery and equipment are subject to the 6 percent sales tax; however, capital equipment used in manufacturing is subject to a 4 percent rate if used in the production process in a new or expanding facility.

- However, the same manufacturing production machinery is exempt from sales tax if used in an enterprise zone or, under some conditions, in a "distressed county".

- government and nonprofit organizations

  - A product that might otherwise be taxed at 2, 4, or 6 percent is totally exempt if purchased by a governmental unit, or if purchased by a charitable, religious, or educational organization for use in the performance of a charitable, religious, or educational function.

2. High rate, narrow base. The general sales tax rate of 6 percent is among the highest imposed by any state, while the tax base is generally narrower than most others. Major items such as food, clothing, drugs and services are exempt. These characteristics lead to revenue instability, inequity among taxpayers, and unfavorable comparisons with other states.

3. Compliance. Collection of the consumer use tax (sales tax on out-of-state purchases), especially on purchases made through mail order catalogs, cable television home shopping, and telemarketing sales is a problem in Minnesota and in most other states. The complexity of the sales tax also contributes to the problems of compliance.

Tax Study Commission Recommendations

1. The sales tax base should be extended to include new clothing and personal services.

2. The present sales tax rate of 6 percent should be maintained.

Major Findings From Consultations

Citizen groups support retaining the exemptions for food and clothing. One organization stressed the importance of not taxing survival income -- income used for food, clothing, and shelter -- as taxing these items would make the tax more regressive. Except for one group supporting less dependence on the sales tax, no other group expressed any strong concern about the level of the sales tax rate.

Business groups showed much greater interest in reducing the general rate. These groups would tie rate reduction to any potential base expansion. One group pointed out that the high sales tax rate is related to the business community's desire to have all capital equipment exempt from the sales tax.

Business groups were, however, strongly opposed to expanding the base to include professional or business services and were generally against local option sales taxes. Focusing on administrative problems, one group spoke for the repeal of the June accelerated sales tax payment and also argued that businesses should be allowed to retain some portion of the tax to cover the costs of collecting it.

Both citizen and business groups expressed concern about the impact of eliminating the deduction of state sales taxes from the federal income tax. Finally, several different groups alluded to their support for sales tax base expansion if the revenue were used to reduce other taxes.

Recommendations

We recommend that the sales tax laws be amended as follows:

- *Expand the sales tax base to add institutions that are now exempt*, including:

  - state government
  - local government units
  - non-profit organizations

  This base expansion will provide revenue stability and predictability to the sales tax base. In addition, it will encourage exempt institutions to improve their productivity and management. Finally, it will eliminate the enforcement problem of for-profit entities using governmental units or non-profit organizations as "fronts" to avoid paying sales taxes.

- *Expand the sales tax base to include the following items*:

  - interstate phone calls originating in Minnesota
  - taxes imposed by the federal government
  - railroad rolling stock
  - private sales of used boats
  - meals provided to employees at no cost

  These base expansions are recommended because they would tend to resolve the following inequities:

  - intrastate phone calls are now taxed
  - other built-in costs are normally taxed
  - auto, truck and plane sales are now taxed
  - dealer sales of used boats are now taxed
  - other purchased meals are now taxed

  In addition to resolving inequities, these base expansions will improve the simplicity and enforceability of the sales tax system.

- *Expand the sales tax base to include mail order, cable television, and telemarketing sales*. This change will correct an inequity with our sales and use tax whereby out-of-state vendors are often able to avoid the tax. This is unfair to in-state retailers who must add the tax to their sales. At the same time that state law changes are sought, we are also seeking federal legislation to remove judicial impediments and are working cooperatively on joint enforcement agreements with other states.

  All of the above base expansions will generate additional revenue.

- *Narrow the tax base to exclude purchases made with food stamps*. This is a new requirement of federal law.

- *Reduce the tax rate from 6 percent to 2 percent for farm equipment installed by a dealer*. This change will remove an inequity and improve the enforceability of the system. Also, it will reduce a tax on capital equipment and will tend to direct tax relief to a segment of the state's economy badly in need of state assistance.

Future Considerations

The improvements recommended above for the sales tax are a start toward desirable reform for the tax. As budget and other considerations allow in future years, we recommend that the Governor and the Legislature consider additional reforms, such as base expansion to some remaining items that are now exempt, removal of the tax on capital goods, standardization of all rates at one general rate, and removal of the June "speed-up" payment.

V. PROPERTY TAXES, AIDS, CREDITS AND REFUNDS

Current Law

Minnesota has the most complex property tax system in the nation. Current law provides up to 68 property classifications and numerous tax credit, general aid, and refund programs to individuals and local governments. This system is further complicated by the fact that Minnesota has a large number of local governing and taxing jurisdictions. These include 87 counties, 436 school districts, 855 cities, over 1,815 townships, and approximately 148 special purpose districts (watershed, transit, etc.). These governing units can also have overlapping boundaries which, consequently, brings the number of unique taxing jurisdictions (an area with the same county, city, school district and special district) to 6,024.

The Classification System: Minnesota's property tax classification system dates to 1913, making it the oldest in the nation. Table 1 summarizes the property classifications and assessment percentages for taxes payable in 1986. There are 15 principal property classifications (farm, homestead, timber, residential homestead, etc.), but with the numerous assessed valuation brackets and corresponding tax rates, the total number of classifications is actually 68. The system is complicated further by the numerous types of property tax credits that apply to specified properties and assessed values.

Property Tax Relief Expenditures for Credits, Aids, and Refunds: Since 1967, the state has significantly increased the commitment of state funds for property tax relief and equalization. Table 2 shows that the state currently finances 15 principal programs for general property tax relief. In FY 1987, expenditures for these programs totaled $1.2 billion and accounted for 23 percent of total state spending from the general fund. If school aids are included, in FY 1987, the state expended 47 percent of its general fund budget for direct or indirect property tax relief for individuals and local governments.

The formulas for determining the appropriation and allocation of the aids and credits are complicated and open-ended. Of the major programs, only the Local Government Aid allocation to cities is a fixed appropriation, but its distribution formula is very complex.

The state's property tax refund program (the "circuit breaker") is also very complicated and difficult to administer. Eligibility for refunds is also very extensive, potentially including all homeowners and renters with incomes up to $40,000 per year.

Table 1

Summary of Current Property Classification Percentages
Taxes Payable 1986

CLASS	Assessment Rate (%)
Farm Homestead	
House, garage and 1 acre	
3cc to $32,000	5
Regular up to $64,000	14
Regular over $64,000	18
Balance excluding HGA	
Up to $64,000	14
Over $64,000	18
Farm Non-Homestead	
House, garage and 1 acre	18
Township vacant land	40
Remainder	18
Timber	18
Residential Homestead	
3cc up to $32,000	5
Up to $64,000	18
Over $64,000	29
Residential Non-Homestead	28
Apartments	
Non-Homestead Apartments (4 or more units)	34
Government Land--28%	28
--34%	34
Farmers Home Administration	5
Title II, MHFA, Section 8	20
Type I or II Apartments (5 or more units)	24
Commercial, Seasonal, Recreational	
Cabins and Land Located in an area of 800' x 500'	12
All Other	21

CLASS	Assessment Rate (%)
Vacant Land	
Noncommercial	40
Commercial	40
Commercial	
Up to $60,000	28
Over $60,000	43
Industrial	
Up to $60,000	28
Over $60,000	43
Mineral	
Low grade	30, 48½
Unmined	50
Public Utility	
Land & buildings	43
Machinery	33 1/3
Railroad	43
Personal	
Public utility tools & machinery fixtures	33 1/3
Structures on leased public lands in rural areas	21
Agricultural real estate leased under M.S. 272.01	19
Structures on leased public lands in urban areas	28, 43
Structures on railroad operating right-of-way	28, 43
All other real estate leased under M.S. 272.01	28, 43
Utility systems	28, 43
All other taxable personal property	28, 43
Classes 3f and 3g	*

* Same as related homestead percentages.

Table 2
State Expenditures for Property Tax Relief
FY1985--FY1987
(in thousands of dollars)

	Actual FY 1985	Estimated FY 1986	Estimated FY 1987
PROPERTY TAX CREDITS & REFUNDS			
Credits:			
Homestead	$505,022	$533,134	$576,256
Agricultural	93,160	104,645	123,400
Attached Machinery Aid	4,127	3,218	1,082
Supplemental Homestead & Taconite Reimbursement	1,163	880	1,082
Reduced Assessment	834	0	0
Wetlands	712	592	700
Native Prairie	146	171	171
Disaster	54	71	6
Agricultural Preserve	324	388	632
Enterprise Zone	618	990	1,076
Regional Transit Board Reimbursement	0	0	1,600
Taconite	10,595	local	local
Property Tax Refunds:			
Homeowners	77,013	71,696	59,612
Renter Credit	102,956	105,204	96,600
Senior Citizens & Disabled (homeowners and renters)	inc.	inc.	inc.
Targeting	0	1,600	0
Total Credits & Refunds	**$796,724**	**$822,589**	**$864,352**
LOCAL GOVERNMENT AIDS	**$273,764**	**$288,418**	**$310,932**
OTHER LOCAL ASSISTANCE			
Aid to Police & Fire	23,575	25,411	29,745
Payment in Lieu Taxes-DNR	4,279	4,357	4,453
Railroad Refund Reimbursements	8,467	3,623	0
Total other aids	**$36,321**	**$33,391**	**$34,198**
TOTAL PROPERTY TAX AIDS, CREDITS, REFUND	$1,107,342	$1,144,398	$1,209,482
AIDS TO SCHOOL DISTRICTS	**$1,137,614**	**$1,234,469**	**$1,331,999**
TOTAL STATE EXPENDITURES FOR PROPERTY TAX RELIEF	**$2,244,423**	**$2,378,867**	**$2,541,481**
Percent of State Budget	44.5%	47.6%	47.3%

Issues

1. Complexity. Of primary concern is the degree of complexity underlying the current property tax system. The multitude of property classifications and state expenditure programs has resulted in increased administrative burdens, significantly reduced taxpayer understanding of the system, and diminished government accountability. The levels of and mechanisms for funding the property tax relief programs have also contributed to budget instability for both the state and local levels of government.

2. Inefficient and costly relief programs. The proliferation of property tax classes has resulted in an inefficient property tax relief tool. As property tax relief is provided to one set of properties, the tax burden is shifted to others. Because the mix of property is different in each of the 6,024 taxing areas, the large number of classes also has profound implications for tax burdens among the multitude of local government jurisdictions and regions of the state.

   The large number of property tax relief programs also tend to work at cross purposes. The programs allocate aids to individuals and local governments in a multitude of ways. As a whole, the system lacks a prima facie rationale. This, in turn, has led to complicated formulas which are perceived to be unfair and encourage annual modification by those seeking to maximize assistance for their constituents.

3. Unequal taxation. The combination of property tax classifications, credits, and aids interacts with variation in the mix of property among local taxing jurisdictions to create broad differences in the effective tax burden, not only between different classes of property, but also between similar properties located in different parts of the state. For example, the average statewide effective tax rate on residential homesteads is 1.25 percent, while the rate on commercial-industrial properties is 4.5 percent. However, the effective tax rate on non-farm homesteads ranges from a low of .20 percent in the city of Squaw Lake to 2.59 percent in the city of Minnetonka Beach. Effective tax rates on commercial properties vary even more, ranging from a low of 1.56 percent in the city of Cobden to 8.12 percent in the city of Taconite.

   In general, property taxes tend to be low in the southern and central parts of the state and high in the metropolitan and northern regions. Outside the Twin Cities metropolitan region, taxes tend to be very low on homes and relatively high on commercial and industrial properties. However, within the metropolitan region, taxes tend to be relatively high on higher valued homes.

4. Instability. As a result of these problems, the state's property tax system has become very unstable and constantly subject to policy changes at the state level. This occurs because when a minor change in classification is made statewide, drastic shifts in property tax burdens can result in subregions of the state. This, in turn, tends to prompt even more changes in classification or credit policy.

5. Lack of local control. Under our current system, local governments do not have the flexibility or control to "target" property tax relief to those types of properties that need it the most in their respective jurisdictions. Minnesota is unique in the near total control over property taxes and local aids maintained by state government. If the system were more flexible and allowed local

governments to target property tax relief, then the system would not only become more effective but would probably become more stable over time.

6. Incentives for property tax increases. Probably the most dramatic problem with the current system is that it tends to encourage higher property taxes rather than lower taxes. The current state and local fiscal system places the state in a difficult position. Local governments spend approximately 70 percent of all public funds, but local taxes raise only about 25 to 30 percent of state and local taxes combined. This large gap means that there is relatively little pressure on local governments to hold down spending. In addition, it has become clear that several programs designed to reduce property taxes have actually acted to encourage tax increases.

   When local governments raise their property tax rates, the formula for property tax credits (particularly the homestead and agricultural credits) offsets part or all of the increase in a taxpayer's property tax bill. Over time, this can have a significant stimulative effect on local government spending and can also create geographical inequities in tax burden between communities that receive their maximum credit amounts and those that do not. This unintended consequence is strongly supported by evidence from studies conducted by the 1974 Legislative Tax Study Commission, the Legislative Auditor in 1983; the Minnesota Tax Study Commission in 1984; and the Office of the State Auditor in 1985.

   Although not as explicitly stimulative as the credit programs, the Local Government Aid formula also undermines local fiscal accountability. The aid is distributed in part based on spending levels and, more important, is allocated directly to local governments. This "hides" the property tax relief from the taxpayer who cannot ascertain the "true" cost of local services based on the "net" mill rate which appears on the property tax bill.

7. Unclear state-local relationships. Our complex and extensive property tax relief programs obscure fiscal and functional relationships between state and local governments. State government provides at least partial funding for every type of municipal and county service. The extent of the funding varies widely among the services and across jurisdictional lines.

   For example, the state provides a statewide average of 50 percent of total support for K-12 education, but this varies between 3 percent in the Becker school district and 79 percent in the Babbit district. Similarly, the state finances a statewide average of 27 percent of total support for city government expenditures. However, this support varies between 2 percent of expenditures in the city of Becker and 77 percent of expenditures in the city of Fertile. Much of the state financial support to cities is paid through the Local Government Aid (LGA) formula. Our LGA formula was established as a mechanism for distributing aids in a need-based manner, but today only 346 of our 855 cities are "on the formula;" the rest have been grandfathered in to insure no loss in aid even though they technically do not meet the need standards contained in the formula.

   Our property tax assistance programs lack a coherent rationale and theory. The state is helping to finance all types of local operations even though there is no constitutional mandate or governmental theory to support the assistance. On the other hand, for those services for which there is a true statewide mandate--

such as K-12 education and income maintenance programs--the degree of state support varies widely and has been claimed by some to be inadequate.

8. Inadequate property tax refund program. Several problems also exist with the property tax refund program (the "circuit breaker"). Under current law, the refund process is totally separate from the property tax process. Recipients of the refund do not necessarily make the appropriate link between their property tax burden and the subsidy they receive from the state. Many state and local officials also see this program as another "welfare" entitlement aid.

   The fairness of the refund program has also come into question. Many argue that it could be targeted better to those truly in need. Currently, eligibility for the refund is very broad, potentially extending to all owners of homesteads and all renters with incomes up to $40,000 per year.

   It has also been suggested that the amount of refund should be tied to both income and property wealth. Most states restrict their refund programs to the low income , elderly, or disabled. Under our current system, a taxpayer with an unusually low annual income (due possibly to a one-time business loss or use of a tax shelter) and a $300,000 home could receive the maximum refund benefit of $1,125, less the homestead credit.

   Finally, the property tax refund program is very difficult to administer and audit, especially among renter applicants. A 1983 report by the Legislative Auditor discovered that up to one-third of all renter applications contained inaccurate information. This resulted in overpayments by the state in the range of 7 to 17 percent of the total cost of the program. The findings of the report supported the contention that the problem does not lie with the internal review and audit efforts, but lies with the basic design of the program.

National Rankings

The following table shows Minnesota's ranking as compared to other states in terms of property tax collections per capita, per $1,000 of personal income, and as a percent of total state and local taxes.

MINNESOTA PROPERTY TAX RANKING

	Fiscal Year		
	1980	1982	1985
PER CAPITA	22	25	19
PER $1,000 OF PERSONAL INCOME	22	27	20

Sources: U.S. Department of Commerce, Bureau of the Census, Governmental Finances, and State Government Finances, various years.

Compared to other states, Minnesota's property tax burden is generally below average, due largely to an above average state fiscal role. However, Minnesota's property taxes on homes and farms are well below average, while taxes on commercial and industrial properties are above average.

Tax Study Commission Recommendations

1. Simplify and make explicit the tax structure and its impact.

2. Give preferential treatment to homeowners and farmers.

3. Eliminate the "expenditure stimulation" effect of a tax credit system that automatically encourages higher property tax levels.

4. Improve the accountability of the intergovernmental system.

5. Add to property tax equity by designing a tax that more closely approximates a tax on wealth as measured by real estate value.

6. Directly and explicitly address the need to reduce the property tax burden on low and middle income households and small farm homesteads.

7. Free local assessors from administrative encumbrances that prevent them from carrying out the task of fairly and accurately assessing property.

8. Reduce the number of classifications to three [residential, homestead and agricultural; residential nonhomestead and apartments; and all other property with assessed to market value ratios of 1/3, 2/3, and 3/3, respectively.].

9. Eliminate the nine existing property tax credits and three refund programs, thereby creating a windfall to the state general fund of approximately 30 percent of gross property tax collections ($803 million).

10. Distribute this fiscal windfall in the form of tax relief through a combination of reduced mill rates and grants to equalize fiscal disparities among localities ($624 million) and an income/wealth property tax credit ($180 million) targeted to low income homeowners and small farm homesteads (520 acres and below).

11. Institute classification reform plus retention of the comparable sales approach to agricultural land.

Major Findings from Consultations

The variety of opinions and judgments offered in the area of property taxes and local aids reflects the complexity of Minnesota's system and the great variety of groups that have some link to the property tax system.

1. Almost all groups agreed that the current arrangements were excessively complex; almost all groups supported drastic simplification of the classification system, and a number of groups support drastic reform of the state-local fiscal system.

2. Each aid or credit has a constituency which seeks the preservation of that program.

3. Although there was general agreement that taxes on commercial and industrial property were high, there was no agreement about how such taxes should be lowered. Although some groups supported shifting commercial-industrial taxes on to other classes (homes and farms), others opposed such a course.

4. Local governments were divided between those who supported greater accountability and those who denied that an accountability problem existed. Some local government representatives denied that the present formulas for homestead credit and agricultural credit encouraged higher property taxes. Local governments in general were unwilling or reluctant to accept any sharing of risk by tying state aid to state revenue.

5. Each type of local government felt that it should continue to receive direct state aid. Cities, towns, and counties were generally opposed to concentrating state aid in the area of education.

Recommendations

We recommend that our property tax relief programs be amended as follows:

- *Reduce the number of property classes from 68 to 5:*

  Homestead: Owner-occupied homes with a classification rate of 20 percent of the homestead base value (currently $65,000 and indexed for inflation) and 60 percent for all value over that level. This class would include all owner-occupied homes.

  Farmstead: Owner-occupied farmland with a classification rate of 20 percent.

  Rural land: Farmland, timber, and vacant land that is outside a municipality with a classification rate of 40 percent.

  Residential Nonhomestead: Rented homes, apartments, and lake cabins with a classification rate of 60 percent.

  Commercial, industrial, and all other. Classify at a rate of 75 percent. Within the commercial-industrial class, utility, mineral, and railroad property would continue to be state assessed. We suggest that utility real property be equalized with commercial-industrial property in the area in which it is located.

- *Consolidate the following credits*:

  The homestead credit, agricultural school credit, local government aid, supplemental taconite credit, supplemental taconite reimbursement, attached machinery aid, wetland credit, wetlands reimbursement, native prairie credit, and native prairie reimbursement should be combined into a single state aid and credit. Combining these ten credits and aids into a single program will simplify the system and eliminate the tendency of the present separate aids to work at cross purposes.

- *Use this new State Education Credit to reduce school property taxes*:

  Confining the credit to the area of school finance will clarify the area of state government's responsibility in the field of property taxes. State government, which already has the major role in the financing of education, will, through this credit, assume about two-thirds of educational costs presently carried by property taxes. State support for K-12 education will rise to approximately 80 percent of total school expenditures. The state will, at the same time, withdraw in part from its direct role in municipal, township, and county government property taxes, leaving these units of government free to make their own decisions regarding property tax levels.

- *Use a direct appropriation to fix the size of the credit*:

  State budget stability will thereby be enhanced.

- *Employ a simple formula to distribute the state education credit:*

  It should be distributed to local taxing districts in a way that is neutral toward local spending and taxing decisions and that offers neither incentives nor disincentives to raise or lower levels of local spending and taxing. This will enhance local accountability.

- *Have the credit apply to all property classes*:

  There should also be a provision for limited local flexibility in the proportion of the credit going to each class of property. The provision for local flexibility will allow local officials to shift state tax relief dollars in a manner that deals with local problems. This provision will further enhance local accountability and allow state aid to be targeted where it is most needed.

- *Repeal the renter credit program and better target the property tax refund program* by inclusion of an asset factor in determining benefit levels, by revising the definition of income to exclude those who use tax shelters to produce artificially low incomes, by setting the minimum level of property taxes that triggers benefits at 4 percent of income, and by limiting benefits to 50 percent of property taxes above the 4 percent level.

VI. ENVIRONMENTAL AND RESOURCE TAXATION

A. Forest Property Tax

Current Law

Minnesota currently recognizes three mutually exclusive property tax laws designed specifically for timberland. They include:

- 2b Timberland: The 2b ad valorem class, specific to forest property and applicable to "land devoted exclusively to timber production," is assessed at 18 percent of market value. A State School Agricultural Credit of 26 percent of the gross tax is also applied to these properties.

- Auxiliary Forest Tax Law: This is a "yield" tax consisting of a nominal ten cents per acre annual land tax plus a yield tax ranging from 10 to 40 percent of harvested timber value. Landowners must apply for this special tax treatment, submitting the land to certain regulations for up to 50 years. No new applications or renewals for auxiliary forests have been allowed by law since 1974.

- Tree Growth Tax Law: This productivity tax for productive forests is 30 percent of their annual growth value (incremental growth). Non-productive areas pay five or fifteen cents per acre. Landowners must apply for this special tax treatment.

Forest land not taxed under one of these three provisions is usually classified according to the other regular ad valorem classes: agricultural, seasonal-recreational, or vacant land. Tax rates on agricultural and seasonal-recreational lands are similar to those imposed on the 2b timberland class, while the tax on vacant lands is more than twice that on 2b timberlands.

In 1985, the three revenue sources provided $5.9 million in local tax revenue from over 2.5 million acres in 41 counties (including the state-paid agricultural credit). Total acerage under these three tax laws represents 41 percent of the state's private timberland. In 1985, the average tax rates per acre under the 2b classification, the auxiliary forest tax, and the tree growth tax were $2.11, $0.28, and $0.88, respectively.

National Rankings

Nationwide, many states link forest property tax rates to the type(s) and value of timber present. As such, a meaningful comparison would be with states similar in forest composition to that of Minnesota. A 1984 study by George Banzhaf and Company compared the per acre taxes of Minnesota's three forest tax laws to forest tax laws implemented in Wisconsin, Michigan, and Maine under current conditions and three different timber-growing scenarios. In all four comparisons, Minnesota's 2b classification ranked highest in terms of taxes per acre.

Issues

1. Classification. Privately owned timberlands in Minnesota can be classified under as many as six property classifications. This results in inequities and uncertainty among the counties, especially given the ability of an individual county assessor or county board to establish eligibility minimums above statutory requirements.

2. Tax Not Based On Ability To Pay. When considered as income-producing property, forest land carries an extremely burdensome annual property tax, due to the long-term nature of forestry investments. When compounded over the life of the investment, annual property taxes may reach the point where any annual incremental timber growth value is extinguished solely by the property tax.

3. Local Government Tax Base Reduction. This concern is most evident at the township level and stems from the potential loss of property tax base when forest land is removed from the ad valorem tax rolls and placed in the Tree Growth Tax Law.

4. Assessment. Particularly with reference to 2b Timberland, there appear to be no uniform guidelines or procedures for assessing forest lands other than according to market value.

Tax Study Commission Recommendations

The Tax Study Commission recommended use of a single ad valorem classification that combined all timberland, agricultural, and related rural land uses into one property tax category.

Major Findings From Consultations

Forest landowner and industry associations, as well as forest property tax administrators, expressed relatively consistent attitudes toward reform of Minnesota's forest property tax structure. The common theme among these organizations dealt with maintaining the Tree Growth Tax Law as the primary tax law for managed forest properties with the following modifications:

- Setting statewide eligibility requirements.

- Establishing substantive landowner commitment to timber management activities.

- Providing fiscal relief to local governments to offset any revenue loss from classifying forest lands under the Tree Growth Tax Law.

Other general concerns about Minnesota's current forest property tax laws included:

- Administratively complex procedures and very low and unpredictable tax revenue generated from the Auxiliary Forest Tax Law.

- Need for uniform application of the 2b Timberland Class.

- Need for improved and standardized timberland assessment procedures.

Recommendations

- Eliminate the 2b Timberland Class and include it with agricultural property (and other similar classes) to create a general "rural land" ad valorem classification.

- Maintain the Tree Growth Tax Law as the property classification for managed forest land. Modify existing law to incorporate the following changes:

  - Minimum Entry Requirements - All minimum entry requirements will be uniformly applied statewide.

  - Eligible Lands - All forest land of twenty acres or greater with at least half of the land area currently stocked or designated to be stocked to commercial forest levels will be eligible.

  - Forest Management Plan - An approved forest management plan should be required on all tree growth forests. In conjunction with this plan, landowners should be required to annually certify compliance with the plan's provisions.

  - Public Access - All tree growth forest (excluding temporarily non-productive lands) should remain open to non-motorized public access.

  - Application Procedure - All counties should implement standardized application procedures for landowners wishing to enroll lands under the Tree Growth Tax Law. Counties should charge tree growth applicants a one-time fee of twenty-five cents per acre to help defray administrative expenses associated with processing applications.

  - Penalties for Non-Compliance or Cancellation - Withdrawal or cancellation penalties should equal ten times the current tree growth tax rates for each year of enrollment, up to a maximum of ten years.

  - Tree Growth Tax Law Designation - Tree growth status will be recorded on the title of such property.

  - Tax Rates - Productive forests should be taxed at 30 percent of their incremental growth value. All non-productive lands should be taxed at thirty cents per acre.

  - Reimbursement to Local Governments - All taxes collected from tree growth forests should continue to be distributed to county, city, and township governments in the same manner as ad valorem taxes.

  - Existing Tree Growth Forests - All existing tree growth forests should be subject to provisions of the new Tree Growth Tax Law.

  - Transfer of Auxiliary Forests to Tree Growth Forests - Upon successful application, all auxiliary forests should be placed under the Tree Growth Tax Law without penalty.

B. Minerals Taxes

Current Law

There are six taxes levied on mining activity in Minnesota:

Occupation Taxes
Royalty Taxes
Taconite Railroad Gross Earnings Taxes
Unmined Taconite Taxes
Severed Mineral Interest Taxes
Production Taxes

Occupation Taxes

An "occupation" tax of 14 percent is levied on the value of iron ore, iron sulfides, taconite and semi-taconite mined or produced in Minnesota (copper-nickel ores are taxed at 1 percent). Computation of the tax base allows the deduction of certain expenses related to the cost of mining, transporting, and marketing of the minerals. In addition, a labor credit is allowed to reduce the effective tax rate to a minimum of 5.75 percent.

In fiscal year 1984, $2.4 million was collected from taconite mining, and $0.6 million from iron ore. Half the proceeds go to the state general fund, 40 percent to elementary and secondary schools, and 10 percent to the University of Minnesota.

Royalty Taxes

Minnesota taxes royalties received in connection with the exploration and mining of iron ore, taconite, semi-taconite, iron sulphides, copper-nickel, and other metals. The tax rates are generally the same as those of the occupation tax, and a labor credit is allowed to reduce the effective rate to that of the occupation tax.

In fiscal year 1986, $3.3 million was collected from taconite operations, $0.4 million from iron ore, and under $15,000 from other metals. All royalty revenues are deposited in the general fund.

Taconite Railroad Gross Earnings

Companies owning or operating a taconite railroad pay a tax of 3.75 percent of their gross earnings. Gross earnings are defined as revenues from established tariffs of common carriers for transportation from the Mesabi Range to ports at the head of Lake Superior.

In fiscal year 1986, $12 million was collected from this tax, all of which was deposited in the general fund.

Unmined Taconite Taxes

This tax applies to taconite or iron sulphides in a 40 acre tract of land from which the production of iron ore concentrate is less than 1,000 tons in that year. The tax is levied using the local mill rate and an assessed value of 43 percent of market value, with a $10 per acre maximum. The proceeds are paid to the counties and distributed in the same manner as the local property tax. In fiscal year 1986, $359,000 was collected from this tax.

Severed Mineral Interests Tax

Mineral interests in real estate owned separately from the interest in the surface of the real estate are taxed at an annual rate of $.25 per acre, or portion thereof, with a minimum tax of $2 per parcel (usually 40 acre tracts).

In fiscal year 1985, $600,000 was collected and distributed in the same manner as the local property tax, except that 20 percent is deposited in a special state account called the "Indian Business Loan Account," which is administered by the Indian Affairs Council.

Production Taxes

The biggest source of revenue from mining activity in Minnesota is the production tax on taconite and iron sulphides, semi-taconite, and copper-nickel ores. For production year 1986, the tax on taconite and iron sulphides is $1.90 per ton applied to the average of production in the current year and the two previous years. Tax rates on other minerals are at a lower rate per ton. Beginning in 1987, the tax will be indexed using the GNP implicit price deflator if annual tonnage is below 33 million in 1987, and below 34 million tons in 1988.

Paid in lieu of the local property tax, the production tax raises about $65 million per year and is distributed to local governments and taxing districts on a cents-per-ton basis.

National Rankings

A nationally recognized study rated Minnesota the highest of 15 states it examined for taxes on mining activity. (Impact of State Taxation on the Mining Industry - A study of 15 states, Whitney and Whitney, revised April 1985.)

Issues

Minnesota's mineral taxes are generally regarded as too high and a deterrent to both the current mining industry and the exploration and development of other minerals such as gold, platinum, chromium, and others.

Tax Study Commission Recommendations

- Occupation and Royalty Tax: Establish one rate, eliminate Labor Credit
- Taconite Railroad Gross Earnings Tax, Unmined Taconite Tax, and Tax on Severed Mineral Interests: No recommendation.
- Production Tax: Eliminate the iron content escalator, pay taconite homestead credit amount directly to local units of government.

Major Findings From Consultations

The industry emphasized that reduction in the production tax area is required to achieve the 20 percent overall cost reduction necessary to make Minnesota pellets competitve. The industry objected to the automatic increases resulting from the built-in escalation factor. The cities and schools need a stable revenue base, which supports the retention of the current three-year average for taxable tons.

Recommendations

- For all minerals (except taconite and natural ore), we recommend that mining companies be taxed in the same manner as all other businesses. The recommendations are to:

  - subject them to the corporate income tax
  - subject them to the sales and use tax
  - subject them to local property taxes on land and buildings
  - exempt ore reserves (in the ground) from taxation
  - repeal the royalty tax
  - integrate the occupation tax with the corporate income tax
  - eliminate the special treatment of copper-nickel, and tax it as other minerals
  - retain tax on severed mineral interests

- Except for taconite, natural ore, sand, silica sand, gravel, building stone, dimension granite, horticultural peat, and soil, we recommend adding a 2 percent net proceeds tax as the only minerals-specific tax, starting January 1, 1987. We also recommend that companies involved in exploration continue to be subject to only the state income and sales tax laws, and the local property tax on land and buildings (and not the net proceeds tax).

- For taconite and natural ores we recommend:

  - repealing the royalty tax (after expiration of the taconite amendments)
  - integrating the occupation tax with the corporate income tax
  - repealing the taconite railroad gross earnings tax, taxing taconite railroads as other railroads
  - retaining the unmined taconite tax (a county option tax of $10 per acre)
  - retaining the taconite production tax in lieu of property taxes.

C. In-Lieu Tax Payments

Current Law

There are five different laws relating to the reimbursement to counties for acquired/tax forfeited lands. These laws include the following:

In-lieu Payments Per Acre: State-established amounts are to be paid to counties for each acre of state land in a county. These payments are made based on the type of land involved: $3 per acre of acquired land, $0.75 per acre of tax forfeit land and county administered land, and $3.75 per acre of other land (e.g., DNR acquired lands). The in-lieu tax payments law provides for deductions of other payments (described below) and prescribes the distribution of funds within each county.

Related statutory deductions include the following:

Con-Con Fund. One-half of the proceeds from the management of state land in Consolidated Conservation areas is apportioned back to the counties through the Con-Con Fund which prescribes the distribution of payments.

State Forest Fund. This fund apportions one-half of state forest fund gross receipts to appropriate counties. The proceeds are to be received and distributed by the county treasurer as ordinary property tax revenue.

Public Hunting Grounds. This statute prescribes a formula for "Public Hunting" payments to counties and directs the county treasurer to distribute such payments as ordinary property tax revenue.

Rent Receipts. This statute provides for 30 percent (or other percentages as provided by other laws) of rent receipts derived from acquired land to be paid to counties as property taxes.

The average annual cost of this program to the state general fund is $5.8 million.

Issues

The Minnesota system of in-lieu tax payments is unnecessarily complicated (11 to 14 separate calculations for each of the 87 counties), and the tax payments are not distributed to local government units as regular property taxes in all cases.

Tax Study Recommendations

None.

Major Findings From Consultations

The Minnesota Department of Natural Resources (DNR) administers the in-lieu payments system. The DNR supports the adoption of the federal model and recommends seeking an interim solution while it works with local assessors to establish land values. Minnesota township and school district officials would like to see the in-lieu payments distributed in the same way as property taxes. All parties would welcome a system that is simpler and that is sensitive to current and changing land values.

Recommendations and Future Considerations

To address the problems of the current in-lieu tax payments structure, we recommend the implementation of a new system to be phased in over the next 18 months. This system would allow the DNR to distribute the next year's in-lieu payments in one of three ways. Counties could choose a payment via (1) a formula designed to simulate the payments received in the last fiscal year, or (2) an average of the last three fiscal year payments, or (3) the exact payment of the last fiscal year. A county could receive whichever amount is greater under any of these three payment methods.

During this interim period, the DNR and the Department of Revenue would work with county officials to develop a plan for the assessment of these lands. This plan would also provide information on the cost of the permanent in-lieu system and should be presented to the legislature by January 1, 1988. The permanent system would be 0.75 percent of assessed land values.

D. Other Environmental Tax Issues

Solid Waste Fee Administration

Current Law

Nine Metro-area mixed municipal solid waste disposal facilities are liable for monthly payments based on volume or weight of solid waste dumped at each site. Currently the Department of Revenue collects these dollars and returns one-half of the proceeds to the landfill abatement fund, and one-half to the metropolitan landfill contingency action fund. Both funds are distributed by legislative appropriation based on recommendations of the Legislative Commission on Waste Management.

Recommendations

- Since this is a fee and not a tax, we recommend transferring the collection function to the Pollution Control Agency (PCA). Revenue may still audit the fund for compliance.

Pollution Control Exemption

Current Law

Certain categories of property used primarily for abatement and control of air, water, and land pollution are eligible for an exemption from the property tax. Application for the abatement must be filed with the Commissioner of Revenue. The equipment or device used must meet standards set by the PCA, which provides that information only upon the request of the commissioner. The final decision is made by the Commissioner, not the PCA, and may or may not include analysis by the PCA.

Recommendations and Future Considerations

We recommend that the PCA and Revenue work together to correct a problem with the current property tax exemption for pollution control equipment. It is not clear what role the PCA plays in determining eligibility for the exemption. A conflict exists when a polluter applies for the exemption to clean up a situation when the cleanup is already mandated by law. Should the state subsidize this kind of cleanup?

VII. Other Taxes

In addition to the major tax revenue sources discussed so far, there are a number of "special taxes," which together raise 20 percent of total revenues collected by the state. These revenue sources consist of excise taxes on certain commodities or transactions. In some cases, the revenues from these taxes are dedicated to specific expenditure categories as opposed to being general fund monies.

The "Special Taxes Policy Team" reviewed all of the special taxes and made recommendations regarding the following:

Cigarette Tax
Telephone Gross Earnings
Aircraft Registration Tax
Aviation Fuels Tax
Airflight Property Tax
Local Lodging Tax
Deed Transfer Tax
Mortgage Registry Tax

A. Cigarette and Tobacco Products Tax

Current Law

The current cigarette tax in Minnesota is 23 cents per pack (20 cigarettes). The tax is levied on the sale or storage of cigarettes and is paid by distributors who are required to stamp each pack as evidence that the tax has been paid. Stamps are purchased from the Department of Revenue by paying the tax. To defer costs of administration imposed on the distributors, current law provides a stamping discount of 2 percent on the first $1 million of stamps, and 1.25 percent on amounts in excess of $1 million.

Tobacco products, such as chewing tobacco, are taxed at 25 percent of their wholesale price.

In addition to the excise taxes, cigarettes and tobacco products are subject to the general 6 percent sales tax and a federal excise tax of 16 cents per pack. The combined federal and state tax on a $1.25 pack of cigarettes comes to 49 cents.

Increased from 18 cents on July 1, 1985, the Minnesota cigarette tax remains below Wisconsin's 25-cent tax and Iowa's 26-cent tax, and is 5 cents above North Dakota's cigarette tax. South Dakota's rate is the same as Minnesota's.

Annually, the cigarette tax raises about $100 million, of which $70 million is general fund money. The balance is dedicated to the Minnesota resources, water pollution, and public health funds.

The tobacco products tax raises about $4 million per year, 80 percent of which goes to the state general fund; the balance is dedicated to the state water pollution fund.

Issues

No pressing issues exist in the structure or administration of either the cigarette or tobacco products tax. While the system of stamping is cumbersome, the states have not found a better way to enforce the tax and discourage illegal interstate transport of cigarettes for retail sale. Because of the national popularity of mail order sales, there appears to be a thriving mail order business in tobacco products, which results in the products being used in Minnesota without payment of the state tobacco products tax.

A major policy question is the extent to which cigarette taxes should be used as a tool to discourage smoking. Various studies have shown that for certain categories of smokers, the demand decreases as prices increase. Should the state have an affirmative policy which uses higher taxes to discourage smoking?

Tax Study Commission Recommendations

Replace the per unit cigarette tax with an ad valorem tax (revenue neutral) to stem the erosion of cigarette tax revenues.

Recommendations and Future Considerations

No recommendations are made with respect to the structure or administration of either the cigarette tax or the tobacco products tax. However, since cigarette smoking is deemed to contribute to health problems which invariably impose a cost on society as a whole, we urge the governor and the legislature to consider increasing the tax. Consideration should also be given to using all or part of any increased revenue for public education and health treatment programs.

B. Telephone Gross Earnings Tax

Current Law

In lieu of local property taxes, telephone companies pay the telephone gross earnings tax at a rate of 4 percent or 7 percent, depending on the size of the cities served by the companies.

In 1985, the Legislature enacted a phase-out of this tax under which, by 1990, telephone companies will pay no gross earnings tax, but instead will pay the local property tax on their real property only (land and buildings). The phase-out is to begin January 1, 1987, when the 7 percent drops to 5.5 percent, and the 4 percent drops to 3 percent. The local property tax is levied beginning with the 1987 assessment year. Since the gross earnings tax is a state general fund tax revenue source and the property tax is a local revenue source, the phase-out will involve a revenue loss to the state general fund of about $55 million in fiscal years 1988 and 1989.

In fiscal year 1986, the telephone gross earnings tax raised 56 million, all of which was deposited in the general fund.

Issues

Technology is advancing at such a pace that serious questions can be raised regarding the definition of the term "telephone company." Current law (the phase-out) assumes that it will be difficult to distinguish phone companies from other communications companies, and hence abandons the special tax treatment. The phase-out will generally be more favorable to telephone companies and will involve a significant loss of state revenue.

Tax Study Commission Recommendations

Replace the gross earnings tax on telephone (and telegraph) companies with local ad valorem taxation (real property only) with local assessment and collection.

Recommendations and Future Considerations

Because of the size of the revenue loss to the general fund, and because it is felt that this issue needs further study, we recommend that the beginning of the phase-out, currently scheduled for 1987 be delayed until January, 1990. During this period, we recommend that the Legislature and various affected state agencies carefully review the related issues of telecommunications regulation and taxation. Further, we recommend that the base of the gross earnings tax be expanded to include cellular phone service, earnings from long distance service, and long distance access changes.

C. Aircraft Registration Tax

Current Law

Since 1945, owners of aircraft have paid an annual registration tax on their planes. In concept and purpose, the registration tax is similar to the registration fee levied on autos and trucks. Currently, the tax is 1 percent of the aircraft's value as measured by the manufacturer's list price less a specified amount of depreciation, which is a function of the age of the plane. Like the auto registration tax, which has a minimum tax level of $35, the aircraft registration tax has a minimum of $10 or 25 percent of the original purchase tax, whichever is greater. This means that some older planes may pay a smaller registration fee than that paid on many cars.

Generally, the tax is paid by owners of smaller private planes, who pay this tax in lieu of the airflight property tax (discussed below). Aircraft subject to the airflight property tax, primarily commercial aircraft, are likewise exempted from this registration tax.

In fiscal year 1986, this tax raised $1.3 million for the state airports fund, which is the sole recipient of such revenues.

Issues

Of the 4,100 planes to which this tax applied in tax year 1985, 52 percent paid less than $25, and 84 percent paid less than $50. In most of these cases, the cost of administering the tax exceeds the tax amount.

Recommendations

To cover the cost of administration, the minimum tax should be raised to at least the greater of $50 or 25 percent of the original registration tax.

D. Aviation Fuels Tax

Current Law

The airports fund further derives revenue from the tax on aviation fuels. The current tax ranges from 0.5 cents to 5 cents per gallon, depending on the volume of fuel purchased, as shown below:

Minnesota Aviation Fuel Tax Rate

Gallons Purchased Per Year	Cents Per Gallon
0 - 50,000	5 cents
50,000 - 150,000	2 cents
150,000 - 200,000	1 cent
over 200,000	0.5 cents

The tax schedule has the effect of charging the lowest tax rate to the biggest purchasers, namely, the largest commercial airlines, and subjects the private plane operators to the highest tax. The reduced rates are provided through a refund system in which purchasers pay 5 cents per gallon and file for qualified refunds with the Department of Revenue.

Issues

Providing tax discounts through a refunding system has been a burden for the Department of Revenue. Further, the tax burden on small plane operators is ten times that placed on large commercial carriers.

Recommendations

Replace the schedule of rates and the inefficient system of refunding with a flat tax of one cent per gallon. This will reduce the tax burden on most small plane owner/operators.

E. Airflight Property Tax

Current Law

Enacted in 1945, the airflight property tax is paid on aircraft flown into Minnesota in lieu of the local property tax and the sales tax. Companies paying this tax (primarily large commercial airlines) are also excused from paying the aircraft registration tax discussed above.

The Department of Revenue assesses the planes and applies a statewide average mill rate to determine the tax amount.

In fiscal year 1986, $4.8 million was collected from this tax and deposited in the state airports fund. (Federal law prohibits taxing airline companies differently from other commercial and industrial property unless the tax receipts are dedicated to aviation uses.)

Issues

Tax revenues from this source have risen steadily over the past few years, due to a combination of higher statewide average mill rates and the acquisition by airlines of newer, costlier airplanes. We noted no particular structural or administrative problems with this tax. However, the method of determining the tax liability and the total revenue going to the airports fund from this tax source bears no relationship to airport funding needs. Unlike the local property tax, the mill rate used for this tax is not a result of budget needs of the airports fund.

Recommendations

We recommend:

- That the airflight property tax be determined with reference to airport funding needs. This can be accomplished by annually legislating a specific mill rate (instead of using a statewide average) in much the same way that local property tax mill rates are determined.

- That the tax discourage the use of older, noisier aircraft by providing a lower tax on quieter planes. This could be accomplished by using a lower assessment ratio on such planes.

F. Local Lodging Tax

Current Law

Current law allows cities to impose a local lodging tax of up to 3 percent, provided the proceeds are dedicated to the funding of tourism-related expenditures. Currently 14 cities levy this tax, most to its limit.

Issues

The major issues are the appropriate extent of local control and the dedication of tax proceeds.

An additional issue relates to the fact that transient lodging sold by colleges and universities to nonstudents (those attending conferences, for example) is subject to the tax. However, colleges and universities frequently fail to collect the tax. In some local settings, the competitive impact of this practice may be a strong influence on the economic welfare of the local hotels and motels.

Tax Study Commission Recommendations

The state should provide for a local lodging tax option. The issues of whether to tax and the how to allocate tax revenues should also be local decisions.

Recommendations

We recommend that no change be made in the dedication of the tax proceeds, that the tax continue to be limited to 3 percent, that counties be allowed to levy the tax outside municipal limits of cities levying the tax, and that colleges and universities be required to collect the tax from nonstudent guests. These changes would enhance local accountability and revenue raising options and would add fairness to the tax.

G. Deed Transfer and Mortgage Registry Taxes

Current Law

The deed transfer tax is levied on all transfers of real estate, at a rate of $2.20 per $1,000 of value transferred. It is administered by the county auditors, and the entire amount of the proceeds remains with the county. However, state-paid county welfare aids are reduced by 97 percent of the amounts collected.

The mortgage registry tax is levied at a rate of 15 cents per $100 of debt on any registered mortgage secured by real property. The tax is administered by the county auditor, with the entire amount of the proceeds remaining with the county. However, state-paid county welfare aids are reduced by 95 percent of the amount collected.

Both taxes, combined, resulted in $34 million in welfare aid offsets in fiscal year 1986.

Issues

In the case of both taxes, the historic origins of the welfare aid offsets may not be well known, making the offset dedication a confusing aspect of these taxes. Further, while deed taxes are quite common among the states, few states have a mortgage registry tax.

Tax Study Commission Recommendations

No change was recommended for either tax.

Recommendations and Future Considerations

- For simplicity, it is recommended that the mortgage registry tax be eliminated, and the deed transfer tax be established at $4.40 per $1,000 of value transferred (the revenue neutral rate).

- Further, we recommend that the new deed tax base be expanded to include transfers of real estate involving governments and that the current exemption for personal property should be repealed.

- The Governor and the Legislature may want to consider this tax as a possible source of revenue to finance economic development or conservation-related activities. In this report, we make no specific recommendations on this matter.

VIII. TAX COMPLIANCE

Current Law

Collections of state tax revenues are controlled by two major factors: the requirements of the state's tax laws (changes to which are suggested in preceding chapters) and effective enforcement of those laws. This chapter deals with recommendations for change in the second of these factors.

The Minnesota Department of Revenue is charged with enforcing Minnesota's tax laws. In performing this function, the department has three major goals:

1. to achieve maximum fairness in the administration of our tax system;

2. to maximize voluntary compliance with our tax laws; and

3. to effectively identify and process cases of noncompliance.

Our system of taxation relies primarily on voluntary compliance with tax laws. Without the willing participation of the vast majority of our taxpayers, adequate tax collection would not occur. However, the maintenance of our voluntary system depends upon the existence of effective audit and collection activities.

The Department of Revenue's Tax Compliance Program annually produces over $100 million through audits and collections. Although we are pleased with the overall performance of this compliance function, we are extremely concerned about recent growth in the state's outstanding accounts receivable (A/R) balance. As of January 1, 1982, that balance was $85,491,168. As of December 1, 1986, the balance had grown to $204,386,713. This represents a 239 percent increase over five years. Although recent data suggest the number is now slowly declining, it still represents a serious problem--and an excellent revenue opportunity--for the state.

We are uncertain about the reasons for this A/R increase. It may result from a combination of factors such as:

1. better departmental auditing which has identified more tax liabilities;

2. economic distress in parts of the state which prompts non-payment;

3. a growing public attitude challenging voluntary compliance; or

4. lack of fear of "being caught."

Whatever the causes of this increase in the A/R balance, we believe significant opportunities exist for improved tax collections. Our optimism stems from recent success with new enforcement programs (many of which were added by the Legislature in 1986), and a greater public awareness of both the problem and the potential.

Issues

The central issue is the degree to which the Legislature should commit additional resources in order to improve tax collection results. Resource issues can be categorized into four basic categories: information systems, collections activities, audit activities, and statutory tools.

1. Information Systems. The department operates on an information and case management system that is twenty years old. The system has outlived its usefulness and greatly inhibits productivity.

   In 1985, the Legislature initiated a ten-year program designed to overhaul the system. Key to this overhaul program has been the development of a centralized and integrated data management system so that taxpayer and tax-type information can be readily shared throughout the department. Such a system would more than pay for itself in increased efficiencies and cash management.

   Many computer systems become outdated within a ten-year period, and we therefore question whether a ten-year developmental period is a prompt enough response to the current serious situation.

2. Collections Activities. Once a tax liability has been determined and entered into the A/R system, department compliance employees initiate a variety of collection activities. Attempts to collect are first made by automated billing and phone, but if these do not prove successful, more forceful collection techniques are employed. The Legislature has recently given the department stronger enforcement tools (e.g., business license clearance, homestead property liens, and more collection personnel), and these have proven successful in starting to reverse the upward A/R trend of recent years. However, A/R system improvements and other collection resources may be needed to continue this momentum.

3. Audit Activities. With present resources, the department is able to audit a relatively low number of individual and business tax returns. Increasing audit resources and information systems would enable the department to increase the percentage of returns audited, and would thereby generate several additional dollars in tax revenues per dollar invested.

4. Statutory Tools. The issue here is whether the Legislature should continue its recent trend in providing additional statutory collection tools to the Department of Revenue. Substantial improvements in the state's compliance laws were made in 1986, and additional opportunities exist.

Tax Study Commission Recommendations

None. The Commission did not deal with compliance issues.

Major Findings from Consultations

Discussions on tax compliance issues occurred primarily with the state's practitioner organizations. They are supportive of improved compliance and related activities because they tend to see departmental efficiencies as being in their best interests.

Discussions with other enforcement entities also tend to support increased compliance activities. For example, the state's County Attorneys Association has recently joined the department in a coordinated criminal prosecution program. Also, we have been fully supported by the occupational licensing boards whose licensees are now subject to the occupational license clearance laws of the state.

Recommendations

We recommend that legislation and funding be enacted to strengthen the Department of Revenue's tax compliance efforts as follows:

- *Accelerate the department's systems implementation* from a ten-year to a six-year program. The acceleration of this program will provide for an earlier return to the state on its system investment, and will permit implementation by July 1, 1988 of certain especially important system redesigns. These special projects would include the taxpayer registration, taxpayer accounts, and automated collection aspects of the systems redesign.

  These accelerated programs would have a very quick investment return. The automated collection system, for example, is a computerized case management and telephone dialing system now in use by the IRS and several states. These systems have paid for themselves within a period of months.

- *Increase collection and audit resources* (including an increase in the number of departmental examiners, auditors, collectors, and criminal investigators). We estimate a return in excess of $4 per $1 invested in these resources.

- *Repeal income tax reciprocity with adjoining states*. Wisconsin, North Dakota, Michigan, and Minnesota have tax reciprocity agreements covering personal service income whereby border-crossing workers pay income taxes only to their home state. We recommend repeal of these agreements because (a) it is difficult to determine if taxpayers are reporting and paying taxes on other income (other than from personal services), (b) the process of administering the agreements is complex, and (c) eliminating the agreements would result in a more timely collection of taxes owed the state.

- *Consolidate and recodify tax compliance legislation* now contained in several chapters of Minnesota Statutes. This consolidation would improve productivity by standardizing collection procedures, time lines, and penalties across tax types. Such a recodification would remove ambiguities and thereby increase compliance enforcement while reducing taxpayer uncertainty and disputes with departmental interpretations.

- *Provide additional statutory provisions* to strengthen the department's collection efforts. Specific suggestions at this point include the following:

  a. Extend the occupational license clearance program to the remaining professions licensed by the State of Minnesota.

  b. Extend the "liquor posting" program to cover withholding and corporate tax delinquencies.

c. Provide for a lien on "registered" homesteaded property, similar to the homestead lien provided by the legislature in 1986 on "abstract property."

These statutory tools will complement and supplement the 1986 tax compliance initiatives. The 1986 counterparts to the above three proposed amendments have proven extraordinarily successful as tax collection activities.

The recommendations in this chapter calling for new compliance resources for the Department of Revenue have been included in the Governor's budget submission to the 1987 Session of the Minnesota Legislature.

APPENDICES

APPENDIX A

Proposed Income Tax Forms

Form
M-1A

Minnesota Short Form

1987

Use label or print

Your first name and initial	Last name		Social Security number
Spouse's first name and initial	Last name		Social Security number
Present home address (street, apartment number, route)			
City or town	State	Zip code	County

Staple your W-2 forms here.
Place check here but do not staple.

1 Federal taxable income (from line 37 of your federal form 1040 or line 19 of form 1040A or line 7 of form 1040EZ) . . . . 1 ________.______

2 Tax from the table on pages 4 and 5 of the instructions . . . . 2 ________.______

3 Minnesota income tax withheld in 1987 (from your W-2 forms) . . . . 3 ________.______

4 If line 3 is more than line 2, subtract line 2 from line 3 and fill in the amount of your **REFUND** . . . . 4 ________.______

5 If line 2 is more than line 3, subtract line 3 from line 2 and fill in the amount of **TAX YOU OWE** . . . . 5 ________.______

I declare that this return is correct and complete to the best of my knowledge and belief. I know I owe the amount of tax I have listed above, and I give up my rights to contest any court order requiring me to pay this amount

Your signature	Spouse's signature	Date
Paid preparer's signature	MN Tax ID or Social Security number	Date

Mail to: Minnesota Individual Income Tax, St. Paul, MN 55145-0010

Form
M-1

Minnesota Income Tax Return 1987

Use label or print or type

Your first name and initial	Last name	Social Security number
Spouse's first name and initial	Last name	Social Security number
Present home address (street, apartment number, route)		
City or town	State / Zip code	County
Check box: ☐ married ☐ single	If you married in 1987, fill in spouse's former name	

State Elections Campaign Fund

If you want $2 to go to help candidates for state offices pay campaign expenses, you may each check one box. This will not increase your tax or reduce your refund.

	Independent Republican	Democratic Farmer-Labor	General Campaign Fund
You	☐	☐	☐
Spouse	☐	☐	☐

Staple your W-2 forms here.
Place check here but do not staple.

1 Federal taxable income (from line 37 of your federal form 1040 or line 19 of form 1040A or line 7 of form 1040EZ) . . . . 1 ______

2 Interest from bonds of another state or any government unit of another state (including bonds in a mutual fund) . . . . 2 ______

3 If you itemized deductions on your federal return, fill in the amount you listed on line 6 of your federal schedule A . . . . 3 ______

4 Add lines 1, 2 and 3 . . . . 4 ______

5 Subtractions (determine from the instructions on page 2) . . . . 5 ______

6 Subtract line 5 from line 4. . . . . 6 ______

7 Tax from the table on pages 4 and 5 of the instructions. (If you were a nonresident for any part of 1987, check this box ☐) . . . . 7 ______

8 If you wish to donate to the Nongame Wildlife Fund, fill in the amount here. This will reduce your refund or increase your tax. . . . .  . 8 ______

9 Add lines 7 and 8. . . . . 9 ______

10 Credit for income tax paid to other states (attach schedule M-1CR) . . . . 10 ______

11 Minnesota child and dependent care credit (attach schedule M-1 CD) . . . . 11 ______

12 Add lines 10 and 11 . . . . 12 ______

13 Subtract line 12 from line 9 . . . . 13 ______

14 Minnesota income tax withheld (from your 1987 W-2 forms) . . . . 14 ______

15 Amount you have paid on your 1987 estimated tax . . . . 15 ______

16 Add lines 14 and 15 . . . . 16 ______

17 If line 16 is more than line 13, subtract line 13 from line 16 and fill in the amount of your **REFUND** . . . . 17 ______

18 If line 13 is more than line 16, subtract line 16 from line 13 and fill in the amount of of **TAX YOU OWE** . . . . 18 ______

I declare that this return is correct and complete to the best of my knowledge and belief. I know I owe the amount of tax I have listed above, and I give up my rights to contest any court order requiring me to pay this amount.

Your signature	Spouse's signature	Date	Daytime phone
Paid preparer's signature	MN Tax ID or Social Security number	Date	

Mail to: Minnesota Individual Income Tax, St. Paul, MN 55145-0010

APPENDIX B

Membership of Tax Study Teams

The recommendations contained in this report are based on the work of the following Executive Branch Tax Study Teams, together with advice received from the teams' outside advisors (listed in Appendix C). The work of the teams was coordinated by, and final decisions on recommendations were made by, the Governor's Tax Policy Group.

Agency abbreviations used in this listing include Rev (Department of Revenue), Fin (Department of Finance), SPA (State Planning Agency), DEED (Department of Energy and Economic Development), Gov (Governor's Office), Ag (Department of Agriculture), DNR (Department of Natural Resources), PCA (Pollution Control Agency), Ed (Department of Education), IRRRB (Iron Range Resources and Rehabilitation Board), UofM (University of Minnesota).

Governor's Tax Policy Group

Tom Triplett, Rev, Chair
John Haynes, Rev, Coordinator
Patty Burke, SPA
Kathleen Callahan, DEED
Jack Ditmore, SPA
Dennis Erno, Rev
Gordon Folkman, Fin
John James, Rev
Nellie Johnson, Fin
Lani Kawamura, SPA
Jay Kiedrowski, Fin
Dorothy McClung, Rev
Glenn Nelson, Fin
Gerry Nelson, Gov
Steve Nelson, SPA
Lee Munnich, DEED
Dan Salomone, Rev

Agricultural Taxation Team

Dennis Erno, Rev, Chair
John Haynes, Rev, Coordinator
Gordon Folkman, Fin
Jay Fonkert, SPA
Mike Kilgore, Rev
Glenn Nelson, Fin
Jim Nichols, Ag

Resource Taxation Team

Patty Burke, SPA, Chair
Dennis Erno, Rev, Coord.
Jack DeLuca, IRRRB
Gerry Heil, Ag
Mike Kilgore, Rev
Lucinda Mitchell, DNR
Glenn Nelson, Fin
Virginia Renier, PCA
Tom Rulland, SPA
Richard Skok, UofM
Doug Watnemo, Fin

Business Taxation Team

John James, Rev, Chair
John Haynes, Rev, Coord.
Dennis Erno, Rev
Ed Hunter, SPA
Lee Munnich, Deed
Art Roemer, Rev
Brian Roherty, Fin
Dan Salomone, Rev
Tom Triplett, Rev

Income and Sales Tax Team

Tom Triplett, Rev, Chair
John Haynes, Rev, Coord.
Patty Burke, SPA
Dennis Erno, Rev
Ed Hunter, SPA
Jay Kiedrowski, Fin
Dorothy McClung, Rev
Lee Munnich, DEED
John Peloquin, Fin
Dan Salomone, Rev

Special Taxes Team

Dan Salomone, Rev, Chair
Art Roemer, Rev, co-chair
Patty Burke, SPA
Dennis Erno, Rev
Jay Fonkert, SPA
Jerry Garski, Rev
Dave Johnson, Fin

Property Taxes/Local Aids

John Haynes, Rev, Chair
Gordon Folkman, Fin, Coord.
Wallace Dahl, Rev
Jack Ditmore, Rev
Dennis Erno, Rev
Gary Farland, Ed
Jay Fonkert, SPA
Nellie Johnson, Fin
Glenn Nelson, Fin

Most of the background research and statistical analysis used by the teams originated with the Tax Research and Local Aids/Analysis divisions of the Department of Revenue. Persons playing key roles from the divisions include:

Carolyn Allmon
Sam Assam
Jim Benson
Diane Carter
Sue Carter
Mary Cerkvenik
Jeff Dols
Nancy Edwardson
Mark Fermanich
Chris Haupert
Rod Hoheisel
Rolf Larson
Narcisco Mindajao
Lonn Moe
Teresa Nowak
Jack Rayburn
Lynn Reed
Matt Shands
Carole Wald
Bob Webb

APPENDIX C

Listing of Outside Advisors

We want to express our deep appreciation to the following people who participated in discussions or corresponded with the various tax study teams. While many of the recommendations contained in this report originated with persons on the list, we do not mean to imply that the individuals listed here necessarily support any or all of our recommendations. We also know that this list is not complete; we apologize for inadvertent omissions.

Name	Affiliation or Representing
James Aase	Bureau of Mines
Diane Ahrens	Ramsey County Board of Commissioners
Russ Allen	Timber Producers Association
Roland Amundson	Minnesota Beer Wholesalers
Gordon Amundson	Nolte Center for Continuing Education
Mark Anderson	MN Chamber of Commerce & Industry
Mary Anderson	Mayor, City of Golden Valley
Joann D. Anderson	AT&T
Morrie Anderson	Association of Minnesota Counties
Richard Anderson	MN Association of Assessing Officers
Luke Angelus	MN Chapter of the Society of Real Estate Appr.
Grant Annexstad	Minnesota Corn Growers Association
Robert Astrub	Minnesota Education Association
Mary Ayde	National Solid Waste Management Association
Paul A. Bailly	None Listed
Barbara Baker	Association of Stable or Growing Districts
Willard Baker	Minnesota School Boards Association
Bruce Barker	Minnesota Forest Industries
Donna Barnes	MN Congress of Parents, Teachers & Students, Inc.
John Bartle	MN Taxpayers Association
Ed Bayuk	MN AARP
John Berglund	Minnesota Liquor Retailers
Prof. Carter Bishop	LL.M Tax Program-William Mitchell College of Law
Alex Bisset	Nicor Mineral Ventures, Inc. (Colorado)
Bill Blazar	Consultant
John Boentje	Pittsburgh Pacific
Edward Bolstad	Minnesota Federation of Teachers
Win Borden	Minnesota Chamber of Commerce & Industry
Gary Botzek	Fish & Wildlife Legislative Alliance
Bruce Bouley	Callahan Mining Corporation (Arizona)
Bob Bratulich	Local 1938
Al Brodie	Minnesota Hotel/Motel Association
William Bryson	Minnesota Council of Parks
Richard A. Buendorf	Savings League of Minnesota
Donald Bungum	Minnesota Association of School Administrators
Phyllis Burdette	American Woman's Society of CPA's
Monte Bute	MN Citizens for Tax Justice
Glenn Carlson	St. Cloud Area Chamber of Commerce
Don Carlson	Metro Senior Federation
Cliff Carlson	Central Minnesota Small Woodlot Owners Association

Name	Affiliation or Representing
Dan Casey	NW Minnesota Small Woodlot Owners Association
Bertram Chez	State Board of Accountancy
Henry Chisholm	Ogleby Norton Company (Ohio)
George Christiansen	Kerr-McGee Corporation (Oklahoma)
Bill Christianson	National Farmers Organization of Minnesota
Harlan Cleveland	Humphrey Inst. of Public Affairs-U of M
Ron Cohen	MN AFL-CIO
Wayne Cox	MN Citizens for Tax Justice
Ned Crosby	Center for New Democratic Processes
Burt Dahlberg	Kraus Anderson Company
Les Darling	Chevron Resources Company (California)
Eric Davenport	National Association of Black Accountants
Kimball J. Devoy	Doherty, Rumble and Butler
Bob Dolan	Northern States Power Co.
Glenn Dorfman	MN Realtors Assoc.
Hank Duitsman	General Mills
David Eggenberger	Independent Business Association of Minnesota
Vartkes Ehramjiam	H. B. Fuller Company
Willis Eken	Minnesota Farmers Union
Jack Everett	None Listed
Doug Ewald	Consultant
Dr. Charles Fairhurst	University of Minnesota
Michael Flanagan	R. J. Reynolds
Ruth Fore	Minnesota Association of Enrolled Agents
Al France	Lake Superior Industrial Bureau
Marion R. Freed	Prudential Realty Group
Charles Freeman	Newmont Exploration Ltd. (New York)
Julia Friedman	Citizens League
Nelson French	Sierra Club
John E. Frost	Exxon Minerals Company (Texas)
Prof. Earl Fuller	University of Minnesota
Ted Fulton	Superwood Corporation
Ed Garin	Coalition of Retired Employees
Jerome A. Geis	State Bar Association
Paul Gilje	Citizens League
Ron Graichen	Cyprus Mines Corporation (Colorado)
Richard Granchalek	Moorhead Area Chamber of Commerce
John C. Green	University of Minnesota-Duluth
Ted Grindal	MN Blue Cross/Blue Shield
Dan Gustafson	Minnesota AFL-CIO
Stanley K. Hamilton	Amax Corporation (Colorado)
Robert Hansen	Legislative Commission on Minnesota Resources
Prof. Paul Hasbargen	University of Minnesota
Jody Hauer	Citizens League
Prof. Richard Hawkins	University of Minnesota
Merle Hedland	Minnesota Association of Wheat Growers
Rose Hermodson	Minnesota Federation of Teachers
Duke Hewitt	MN AARP
Joan Higinbotham	League of Women Voters of Minnesota
Victor F. Hollister	None Listed
Roger Howard	Aitkin County
Sam Huston	Mayor, City of St. Cloud
Truman Jeffers	Minnesota Bankers Association
Art Jelinski	AFL-CIO Retirees

Name	Affiliation or Representing
Curt Johnson	Citizens League
Harold Johnson	Metro Senior Federation
Douglas Jordal	IDS Financial Services, Inc.
Jean Keffeler	Northwestern Bell Telephone Company
Tim Kennedy	Minnesota Association of Solid Waste Officers
Laura King	Budget & Evaluation Office
Milt Knoll	Champion International Corporation
Allan Knutson	Meeker County
Dale Koglin	None Listed
Dave Krogseng	Tobacco Institute
Roy L. Krueger	Farm Managers and Rural Appraisers, Inc.
Mike Kruger	American Dairy Association of Minnesota
Greg Kvale	DNR Forestry Employees Association
Robert N. Lambe	Newmont Exploration Ltd. (Connecticut)
Johnny Larson	MN Assoc. of RegionalCommission
Earl Laufenberger	Coalition of Outstate Cities
Ernest Lehmann	Lehmann Exploration Management, Inc.
Tom Lemm	Northwest Airlines, Inc.
Jerry D. Lewis	Boise Cascade Corporation (Idaho)
Bruce Lier	MN Social Service Assoc.
Donald Lindgren	None Listed
James W. Littlefield	State Bar Association
Merlyn Lokensgard	Minnesota Farm Bureau
Paul J. Lokken	State Bar Association
Rod Loper	Clear Air Clear Water
Jed Lund	Tax Executives Institute
Marilyn Lundberg	Southern Minnesota River Basins Commission
Sam Maida	Air Force Sergeants Assoc.
Prof. Wilbur Maki	University of Minnesota
James Mancuso	Chevron Resources Company (California)
Thomas Manthey	Pickands Mather & Company (Ohio)
Ralph J. Marlatt	Insurance Federation of Minnesota
Dr. Ralph Marsden	University of Minnesota-Duluth
Norma Marsh	Dakota County
Amos Martin	St. Paul Area Chamber of Commerce
Charles Match	University of Minnesota-Duluth
Norb McCrady	Independent Bankers of Minnesota
Shirley McKibbon	Babbitt Embarass Area Development Association
Mark McNeil	Municipal Caucas, City of Savage
Harry Mickelson	Mickelson Tax Service
Jerry Miller	National Assoc. of State Budget Officials
T. C. Mitchell	Minnesota Association of Public Accountants
Herbert Mocol	Coalition of Outstate Cities
Susan Moore	Montevideo Area Chamber of Commerce
James Morgan	Waste Management of Minnesota, Inc.
Connie Morrison	Mayor, City of Burnsville
Patrick Nelson	MN Business Partnership
Thomas W. Newcome	Hospitality Association
Jim Nicholie	Greater Minneapolis Daycare Assoc.
W. E. Nielsen	Republic Airlines, Inc.
Luanne Nyberg	Children's Defense Fund
Dr. Dick Ojakangas	University of Minnesota-Duluth
Seymour Olson	Minnesota Association of Assessing Officers
Robert Orth	Metropolitan Inter-County Association

Name	Affiliation or Representing
Don Paterick	Minnesota Taxpayers Association
Gene Paul	National Farmers Organization of Minnesota
Debra Payson	Stillwater Area Chamber of Commerce
Arthur Persons	Minnesota Assoc. of Planning & Zoning Administrators
Jack Picotta	Environmental Learning Center
Hugh Price	Minnesota Wildlife Heritage Foundation
Paul Rankin	National Solid Waste Management Association
Pat Rasmussen	Sherburne County Recorder's Office
Dr. Kenneth J. Reid	University of Minnesota
Robert Renner	Northwest Candy & Tobacco Association
James E. Rhude	Rhude & Fryberger, Inc.
Joseph Robbie	Minnesota Candy & Tobacco Association
Mary Anderson Roberts	Association of Metropolitan School District
Peter Rode	Minneapolis Urban Coalition
Robert R. Roe	Kerr-McGee Corporation
Raymond J. Rought	Assistant Commissioner, Aeronautics Division
Ford Runge	University of Minnesota
Allen Saeks	Citizens League
Mark Sather	Cedar Home Farm
Betty Schmitz	Sauk Centre Chamber of Commerce
Ferdinand P. Schoettle	University of Minnesota Law School
Norma Schumacher	Minnesota Association of County Officers
Thomas Scott	Center of Urban & Regional Affairs-U of M
Mark Sellner	Minnesota Society of CPA's
Louis Sickman	Minnesota Public Utilities Commission
Don Slater	League of Minnesota Cities
Chuck Slocum	Minnesota Business Partnership
Charles K. Smith	Minnesota Recreation & Park Association
Prof. Thomas Stinson	University of Minnesota
James Stuebner	MN Assoc. of Industrial Office Parks
Kip Sullivan	MN Citizens for Tax Justice
John Suffron	Minnesota Forestry Association
C. Dudley Switzer	Internal Revenue Service
Thomas Tellijohn	Minnesota Waste Association
Prof. Kenneth Thomas	University of Minnesota
Ed Tieman	Minnesota Telephone Association
Cheryl Trombley	Minnesota Accounting Aid Society
William C. Ulland	American Shield Company
Richard D. Upton	Greater Minneapolis Chamber of Commerce
John Van Doorn	Minnesota Retail Merchants Association
Diane Vanuseka	American Society of Women Accountants
Vera Vogelsang-Coombs	Minnesota Chapt. of American Society for Public Admin.
Carl Vogt	Christmas Tree Grower's Association
Al Wallace	Blandin Paper Company
Thomas N. Walthier	St. Joe Minerals Corporation (Missouri)
Dr. Matt Walton	Minnesota Geological Survey
Dorothy Waltz	Minnesota Association of Soil & Water Dist.
George Weaton	University of Minnesota
Dr. Paul Weiblen	University of Minnesota
Patricia Westhoff	MN Taxpayers Association
Chuck Weston	Northeastern Minnesota Development Association
Allen Wickman	Forestree Farmers of Minnesota, Inc.
Archie Wilcox	Minnesota Senior Federation
Helen Wilkie	None Listed

Name	Affiliation or Representing
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Dr. Donald H. Yardley	University of Minnesota
Donald Zahn	Minnesota Association of School Business Officials
Glen Zinn	Hecla Mining Company (Idaho)